

# The Dynamics of Crisis: Brazil, the BRICs and the G-20

A dinâmica da Crise: Brasil, os BRICs e o G-20

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**Abstract** The aim of the article is to evaluate Brazilian foreign policy priorities since the 2008 financial crisis. Since the beginning of the first decade of the twenty-first century, changes in the economic power balance are becoming more evident. However, they have yet to generate a coalition of new States leadership or demands by these actors for more visibility in the process of decision making due to different reasons. For China, the problem is to incorporate the responsibilities of monetary stability with the management of its currency. Even though these trends still continue, this reality is starting to change because of Brazil's foreign policy answer to the crisis of 2008. The paper intends to argue that whereas China had internal resources for applying a policy apart from development countries, Brazil needed that these nations to adopt policies that stopped the deepening of the crisis avoiding its spillover for peripheral or emerging nations which led Brazil to articulate the BRICS coalition and strengthen emerging nations stand in the G20. The text will contextualize the 2008 crisis, followed by a study of Brazilian foreign policy towards the "RICS" and a coordinated action in the G20. The G20 declarations will be analyzed in order to evaluate how the emerging nations agenda was put into effect, closing with a balance of G20's prospects and the emergent's nations stand in the management of the international economic system and Brazil's role in this process. **Keywords** Global Financial Crisis, BRICs, G20, Brazilian Foreign Policy, China.

**Resumo** O objetivo do artigo é avaliar as prioridades da política externa brasileira desde a crise financeira de 2008. Desde o início da primeira década do século XXI, as mudanças no balanço de poder econômico estão se tornando mais evidentes. No entanto, ela ainda têm de gerar uma nova coalizão de liderança dos Estados ou demandas por esses atores por mais visibilidade no processo de tomada de decisão devido a razões diferentes. Para a China, o problema é incorporar as responsabilidades de estabilidade mone-

tária com a gestão de sua moeda. Mesmo que essas tendências continuem, esta realidade está começando a mudar por causa da resposta da política externa do Brasil à crise de 2008. O trabalho pretende argumentar que, enquanto a China tinha recursos internos para a aplicação de uma política separada dos países em desenvolvimento, o Brasil precisava que essas nações adotassem políticas que parassem o aprofundamento da crise evitando o seu transbordamento para as nações periféricas ou emergentes, o que levou o Brasil a articular a coalizão dos BRICS e fortalecer as nações emergentes no G20. O texto irá contextualizar a crise de 2008, seguido por um estudo da política externa brasileira para os "RICS" e uma ação coordenada no G20. As declarações do G20 serão analisadas, a fim de avaliar como a agenda de nações emergentes foi posta em prática, fechando com um saldo das perspectivas do G20 e da ascensão das nações emergentes na gestão do sistema econômico internacional e o papel do Brasil neste processo.

**Palavras-chave** Crise Financeira Global, BRICs, G20, Política Externa Brasileira, China.

## Introduction

Since the creation of the Dumbarton Oaks and the Bretton Woods systems after the end of the Second World War in 1944/1945, the core multilateral institutions of the political and economic framework of international relations were guided and centered in US hegemonic power and the dominance of the Western bloc. International organizations such as the International Monetary Fund (IMF), the World Bank and the Group of 7 (encompassing the most developed nations of the world – the US, France, Great Britain, Canada, Italy and Japan), as well as the General Agreement on Tariffs and Trade (GATT), focused on this balance of power. Although in the 1960s and 1970s this system was somewhat challenged by the emergence of the Third World (and the North-South divide) and alternative institutions such as the G77 (that joined the most relevant developing nations in contrast with the G7) and US abandonment of Bretton Woods ruling regarding the gold standard, there were no significant changes in its dynamics and priorities.

At that time, in spite of US unilateral decisions regarding its economic crisis due to the pressures of the Vietnam War (1955/1973) and of the first oil crisis of 1973, the Cold War scenario of bipolar confrontation with the Soviet Union bloc constrained challenges to American decisions, in particular from within its own bloc, in Western Europe and Japan. Also, some argue that these US decisions were led not only by its domestic needs but also by a conscious effort to contain its allies' advances as competitors in the capitalist system and the emergence of the Third World. So, the US generated global imbalances in order to sustain its supremacy, an action that was tolerated due to the fear of Soviet expansionism and America's security umbrella in Asia and Western Europe.

Moreover, on the Third World arena, the political rhetoric of autonomy and demands regarding equality and fairness in trade and modernization were not accompanied by similar power of resistance. Developing nations vulnerabilities regarding its levels of development and modernization, political and social instabilities and economic weakness due to their external debt allowed the US significant room to pressure them in the trade and financial arenas. These pressures were two-fold: unilateral, applied by the US in their bilateral relations, and multilateral, making use of international institutions such as the UN and the GATT rounds of talks.

Therefore, America's economic and political difficulties were lessened by its significant command of power resources in the hard and soft power arena, regarding military, ideological and political projection, and the absence of a cohesive group of nations that could represent either an alternative or a challenge to US supremacy. During the 1980s and 1990s, and, in particular, after 1989, with the end of the Cold War, US hegemonic agenda stood relatively still. In spite of growing concerns regarding the nation's economy, which led to a round of debates regarding US relative decline, there were no clear adversaries or political and economic models that posed any threat to the US. On the contrary, decline hypothesis were deemed by others regarding the "end of history" by Francis Fukuyama (1989), arguing in favor of the country's political and economic liberal ruling in the international arena. Unipolarity was a perception regarding the world's balance of power too, emphasizing America's uniqueness. Also, there was a perception of renewal due, once more, to the strength of the "American way of life" and the absence of ideological alternative or clashes regarding its model. Moreover, the 1990s represented the height of neoliberalism, in the workings of the Washington Consensus of welfare cuts, privatization, economic openness and the minimum State.

Nevertheless, there were concerning trends about US economic power such as trade imbalances, internal debt, levels of consumption and spending by the society, impoverishment that were weakening the basis of the nation's domestic resources. After the terrorist attacks of 9/11 and the Global War on Terror (GWT) these trends became more explicit over the time, due to President's George W. Bush policies of economic liberalization and growing defense spending, producing a gap that led to the 2007/2008 crisis. Once more, as in the 1970s, US economic power was being reduced and challenged by the country's weakness and external issues. And, once more, expectations around the world (and in the US) were related to US capability of confronting these challenges by making use of its political,

economic and strategic resources, pressing other countries to abide to US bilateral and multilateral pressures.

However, since the beginning of the 21<sup>st</sup> century, significant changes in the world's balance of power regarding US political and economic imbalances, added to its traditional allies weakness in Western Europe and Asia (Japan mainly), revealed that a new axis of power were emerging in the Third World. Even though some tried to dismiss the phenomenon as brief, as in the 1970s, the new resilience of these nations that worked through the past decades in their political and economic development searching for the goal of reducing their vulnerabilities towards the North proved that a new geopolitical and geoeconomic reality was gaining ground from the South. A group of nations in particular stood apart, the BRICS, Brazil, Russia, India, China, and later on, South Africa<sup>1</sup>, which also became to be known as "emerging nations".

In this sense, the 2008 economic crisis represented a turning point for international relations, indicating that the traditional patterns of multilateralism and US hegemonic power were facing a new challenge regarding their update and reform and, mostly, towards a new distribution of power in the world domain. So,

Viewed from a broad historical perspective, the global financial crisis underscored and expedited some developments that will have a significant long-term impact on the world political and economic situation. First is the evolution of the international power structure. If there was a unipolar moment in the 1990s, it is now gone and the world is rapidly moving away from it. Whether the new world power structure is multipolar, non-polar, or something else, one thing is clear: the leadership of global governance will be restructured. The developing countries, or the non-western world, are going to occupy a more preeminent position in the new leadership and will have a louder say in global governance. The economic rise of the emerging markets and developing countries was already evident well before the crisis. Yet, it was the crisis that brought about the opportunity for their growing economic weight to be translated into politico-economic influence. (XINBO, 2010, p. 161)

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1 The BRIC was an acronym created by Jim O'Neill at the Goldman Sachs to refer to a core of developing nations that were viewed as future powers in the world system due to their ongoing economic growth and political autonomy gains. At first, the BRIC were composed of Brazil, Russia, India and China, and from 2010 on, South Africa was added as a member. The evolution of the group from "acronym" to "alliance" is going to be analysed in further sections of the paper.

Traditional multilateral institutions such as the G7, IMF and the World Bank were insufficient to deal with the crisis, strengthening the G20, a mixed group of developed and developing nations that dated back to 1999. At that time, the G20 was created as an attempt to join, in a more comprehensive framework relevant economic powers from the North and South, but was not recognized by the US as a relevant sphere of decisions or talks, a situation that only changed after 2008 and the absence of adequate venues for discussing world's economic problems with a broader representation. Faced by these realities, the aim of the article is to discuss these trends, focusing on the 2008 economic crisis, Brazilian foreign policy choices in relation to the G20 and the BRICS.

## The Economic Crisis of 2008: Characteristics and Impacts

The 2008 crisis is a product of the pattern of capitalist accumulation that dates back to the remodeling and end of the Bretton Woods system. Since the 1960s, countries started to lessen the regulations on the financial system that were designed after the Second World War in order to avoid the repetition of the 1929 Great Depression. This process of deregulation opened up space for financial innovations in the 1970s that led to a more lucrative market than the one of productive investments. Even big corporations started to operate directly in the bonds market, so that banks were not necessary for these operations, which led to a new set of players in the international capital market. This trend was also favored by the collapse of the Bretton Woods system, which led to end of pre-defined exchange rates, in a situation in which the flow of assets led to a more dynamic exchange market, that started to present a greater amount of resources. International arbitration regarding exchange rates and interests became extremely lucrative.

The increase in US interest rates in the end of the 1970s and beginning of the 1980s favored the process of financialization of wealth. This process led to a shock on peripheral nations, contributing to the debt crisis of 1982, and meant a renewed projection of US power, due to the valorization of the US dollar and the redirecting of capital flows in order to finance the so called twin deficits, the trade and budget ones. At that point, the US made use of their "capability to structurally frame economically, politically and ideologically its partners and enemies." (TAVARES, 1997, p.28).

US actions enabled the country to impose its debt and the dollar as the dominant currency in the process of wealth financialization. So, US dollar still remained the most reliable currency for contracts when financial players were seeking for a secure investment. In fact, this characteristic was not even altered during the 2008 crisis. Since then, this pattern of accumulation has been deepened by the US and other nations financial reforms such the reversal of the 1933 Glass-Steagall Act in 1999. The reversal of this law ended the separate status of commercial and investments banks that allowed, for instance, the creation of the Citigroup.

In the end of the 1980s and beginning of the 1990s, two components linked to the new model of accumulation were apparent in the crisis that hit the most relevant economies: the asset bubble burst which reflects not only in the financial markets, but in the economy as reflected in US stock exchange crisis in 1987 and, mostly, the Japanese financial and real estate crisis in the beginning of the 1990s (from which the country has not fully recovered yet). Another phenomenon was the investors' ability to provoke exchange rate crisis, due to free flow of international assets and to the fact that the amount of resources made available by the market was far greater than the resources available for central banks. In the midst of the 1990s, exchange rate crisis in the European Union, exposed States limited powers to control the international movement of capitals on national economies.

In spite of monetary instability and speculative capital of the international financial capitalism, there were no regulatory changes after the 1990s crisis. Quite the opposite, the process of wealth financialization was deepened in major economies and revenues were transferred to the periphery in the context of neoliberal reforms. In peripheral countries, this financial openness led to the 1980s reversal in the shortage of foreign currencies, leading to a greater affluence of currency. In Latin America in particular, the inflow of US dollars made it possible to implement the anchor currency as a tool to control inflation rates in some countries of the region. Asian nations also benefited from this process, either by attracting more financial capital for their markets (as in the case of Hong Kong) or by receiving overseas assets through local banks and providing internal loans (for instance, in South Korea). Both Latin American and Asian strategies proved to be sources of instability.

The Mexican (1995), Asian (1997), Russian (1998), Brazilian (1999) and Argentinian (2001/2002) crisis made it clear once more the weakness of States in dealing with capital international flows. Monetary policy proved to be a limited tool to fight against speculative attacks, and even nations with significant international

reserves were unable to stabilize the exchange rate mechanisms in these circumstances. Moreover, the IMF role in preventing and managing the crisis was limited. In each crisis, more questions were raised inside the IMF itself regarding how to answer to the crisis and the kind of help that should be given to countries that were affected by speculative attacks (BLUSTEIN, 2002). In reality, IMF resources ended up helping nations to afford dollars to guarantee the exit of international capital from these countries, and not as a means to improve stabilization and to help the State to regain control of macroeconomic policies. On the opposite, the IMF was making it easier for nations to answer to market imposed demands.

Despite this sequence of crisis, there were no initiatives toward a process of reform of Bretton Woods institutions and for the creation of a new monetary and financial arrangement. The main reason was that the US, from the middle of Clinton's government onwards, was growing again due to this wealth financialization, although the rest of the world was experiencing crisis and low rates of growth. The assets bubble, the gains offered by financial markets, allowed US families to take part in this process, and consumption started to follow the gains created by the inflation of financial and real estate assets. Debts went higher and were the main pillar in the increase of consumption. The 1999 bank reform already mentioned strengthened this process because it allowed big US commercial banks to take part in the movement of wealth financialization, joining operations and dynamic world market of derivatives (COUTINHO; BELLUZZO, 2004).

Moreover, the spell regarding new technological standards and the expectations that business could prosper in the virtual world, reinforced the process even more. Therefore, not only traditional enterprises experienced a rise, but also stocks of companies traded in Nasdaq. The 1990s financial euphoria experienced in the 1990s created additional stimulus for frauds in the balances of big corporations such as WorldCom and Enron, that kept stocks higher and allowed them to acquire more resources. The disclosure of these accountant frauds, linked to the disappointing performance of the new virtual business that were held up high during the 1990s, led to the US 2001/2002 crisis. The crisis, mostly, was characterized by a significant downfall on stocks prices.

Once more, there was no change in the regulatory patterns of the international system, nor a redistribution of economic power in world scale. In fact, from the US point view, the crisis was generated by the frauds in balances, and therefore was limited, and was not created by the financial framework established in the 1970s. Moreover, at that moment, the effects of the crisis in the US and the

world were not clearly felt, since there was a confusion with the effects of the 9/11 attacks to the World Trade Center. In addition, the increase in George W. Bush defense budget after 9/11 had a non-intended effect on the crisis with a countercyclical effect. So, markets were able to recover and the process of financialization continued to deepen. The increase in US spending jeopardized the balanced budget achieved during the Clinton era, and there was a reinforcement of the dynamics of financing US twin deficits through foreign capital. Regarding this issue, since the beginning of the 2000 decade, there was an increase in China's relevance as owner of US treasury bonds. Japan's former position as the main holder of these bonds was reduced during this period, and in 2008 the country was surpassed by China in the context of economic crisis.

Even though, the US economy experienced a lower growth in Bush years in comparison to the Clinton period, there was a quick comeback of financial euphoria and the markets soon recovered the path interrupted by the 2001/2002 crisis. Mostly significant in the 2008 crisis was the expansion of the mortgage subprime market. As mentioned, in the US, the increase of families indebtedness was a feature of the process of wealth financialization, in a context of financial euphoria, profits expectation, and banks were increasingly lowering the standards for mortgages. This process was stimulated by the financial innovations of the 1970s, in particular the process of securitization of debt.

In order to reduce their risks, and improve profits, creditors started to issue bonds that were backed by the payments of debts that they were supposed to receive. So, in the matter of mortgages, US banks accepted new mortgages from high risk clients, low-income or even unemployed ones, and then issue bonds backed by these new debts, and then split the business risk with other investors, but, at the same time, they create a trap for bankruptcy all over the place.

These bonds were acquired by investors not only in the US, but in the whole world, such as funds of investments, funds of pension and even foreign banks acquired these papers. Even though they were aware that these were high risk papers, they were trying to benefit from its higher profits, believing that the financial euphoria would still go on. Galbraith (1992) demonstrates how economic agents tend to ignore alerts regarding the reversal of the cycle when immersed in the euphoria, then, after the bubble bursts, they try to compensate by turning their active losses in cash. Therefore, in the midst of 2000, for the ones involved in the process of financial speculation it seemed to be no doubt that the process of family indebtedness through mortgages and the linked bonds market expansion was sustainable.



However, when insolvency has begun to grow, the system became vulnerable. In 2006, some credit institutions were already experiencing problems, but this information was only released to the public in 2007. Since then, Bush's government delay in recognizing the existence of a crisis in order to answer to it allowed its expansion till Lehmann Brothers investment bank in September 2008. The bank was strongly linked to the subprime market. Bush's government saw no reason to support the bank financially since it considered that the impact in the economy would be small. However, it was the key event that started the bank crisis in the US and in Western Europe, since all of the banks exposed to the subprime market were exposed. The effects of Lehmann Brothers bankruptcy spread in the US and overseas and a few days later led to the bankruptcy of the insurance company AIG, so that the US government was willing to aid it with US\$ 85 billion in order to save its operations. Also trying to stop the crisis, the government took control of real estate credit agencies, Fannie Mae and Freddie Mac. However, the crisis was already on the move, the speculative bubble burst, and the problem was getting deeper in the US and Western Europe as well, and both have to inject a significant amount of resources in banks. In the US, the government also had to intervene in Chrysler and General Motors to avoid their bankruptcy, since they were companies involved in this process of wealth financialization.

For a while, the crisis put into question the orthodox consensus regarding the continuation of balanced budgets, since the US and European Union countries answers to the crisis were based on an increase of public spending in order to lessen the effects on national economies. However, in the European case, this increase in public spending to save banks and minimize the recession, led to a greater indebtedness of governments. This process opened a new speculative cycle regarding the sustainability of weaker economies in the Euro zone, such as Greece, Ireland, Spain and Portugal. The crisis started in 2010 when Goldman Sachs revealed that it was already aid Greece through financial operations, in order to hide the country's budget deficit. Since then, the Greek crisis has only grew worse, putting into question the Euro survival, since the common currency is being understood as a barrier to achieve specific solutions for each country's crisis specific characteristics.

Barack Obama's election as US President in 2008, that most pointed out as moment of hope and for the renewal of US domestic and foreign policies, led to no significant changes from economic and financial patterns. It was not able to generate an update of Bretton Woods institutions or to propose new regula-

tory and institutional standards for the international financial system. Even in the domestic arena, the projects of recovery were much similar to the ones that were being put forward by the end of Bush's presidency. The approval of the Dodd-Frank Act<sup>2</sup> had no concrete consequences for the bank system and banks are questioning several parts of the legislation. This debate is increasing recently, due to JPMorgan Chase's announcement of losses in the amount of US\$ 2 billion in the derivative markets.<sup>3</sup> This announcement allowed some room for pushing a cut on big American banks size in order to overcome the dilemma regarding the existence of institutions that are "too-big-to-fail"<sup>4</sup>.

The 2008 crisis was characterized by one exceptional feature since the deepest effects focused on developed nations. Peripheral economies were able to minimize the impacts of the crisis. Even Latin America that was particularly sensitive to previous foreign crisis fared better, although Mexico in particular suffered quite a lot, due to its economic integration with US economy. The most relevant feature of the crisis was that it made clear that there was an ongoing redistribution of power in the world economy.

First, from a financial point of view, US answers to the crisis were dependent on an increase of the nation's debt, due to the emission of Treasury bonds. At this moment, there was a significant change in the owners of these titles: not only China was 1<sup>st</sup> ranked, but Brazil took the 3<sup>rd</sup> place. By the end of 2011, Brazil held US\$ 226 billion in US Treasury bonds, whereas the United Kingdom, the country that held 3<sup>rd</sup> place before, had US\$ 111 billion, an amount much lower than the one it held in 2009 (which led it to the 11<sup>th</sup> place as US Treasury bonds owner). Russia that in 2005, was not ranked among the 30 owners of bonds showed itself in 5<sup>th</sup> position. India, that was also absent from the list, appeared in 19<sup>th</sup> place. Moreover, one should mention the growing weight of oil producing nations and fiscal paradises in the Caribbean as buyers of these bonds.

The power vacuum created by the crisis in major nations and the weakness of Bretton Woods institutions to answer to the crisis allowed emergent countries

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2 The Dodd-Frank Wall Street Reform and Consumer Protection Act was approved in July 2010, bringing back a regulatory framework for the bank system in order to prevent the repetition of the 2008 crisis. The purpose was to impose more transparency to the operation of larger banks. For Banks, its most disputed part is the co-called Volcker Rule, suggested by Paul Volcker, that prohibits banks to deal with real estate bonds, derivatives and other similar financial assets with their own capital. Banks still have two years to adjust to this rule.

3 [http://www.nytimes.com/2012/05/13/business/jpmorgan-shooting-itself-in-the-foot-fair-game.html?\\_r=1](http://www.nytimes.com/2012/05/13/business/jpmorgan-shooting-itself-in-the-foot-fair-game.html?_r=1)  
<http://www1.folha.uol.com.br/fsp/mercado/42367-jpmorgan-perde-us-2-bilhoes-por-erros-horriveis.shtml>

4 <http://economix.blogs.nytimes.com/2012/05/10/breaking-up-four-big-banks/>

to broaden their autonomy in defining the answers to the crisis. China's response was to increase domestic public spending to compensate the loss of exports that would be created by the crisis in developed nations. This Chinese strategy allowed it to continue growing and also to pull together the world economy. The impacts of this expansion was felt not only in commodities export countries such as Brazil, but also in Germany that exported capital goods to the Chinese market (which allowed Germany to be less affected by the crisis when compared to its European Union partners).

Brazil's answer was to lower interest rates and taxes in relevant sectors of the domestic economy such as automobile industry and the "white line" (kitchen and house appliances). These policies were successful and led to ongoing growth and low unemployment rates, showing a total opposite trend from the ones of developed nations. It should also be stressed that the current regulatory standards for the bank sector in Brazil, prevented the contamination of the system due to the international crisis. Brazil had not reached similar growth rates such as China, but it fare quite well, when compared to previous experiences of crisis. China grew 9,6% in 2008, 9,2% in 2009, 10% in 2010 and 9,2% in 2011; Brazil, for its turn, grew in the same years, 5,2%, -0,3%, 7,5% and 2,7%. This was possible due to the accumulation of reserves in the former period, to the diversification of trade partners and, most of all, due to China's increase weight in Brazil's foreign trade. In this sense, Brazil-China trade relations helped to stabilize Brazil foreign sector, which kept the flow of capitals going in spite of the crisis. Traditionally, international crisis led to the flow of capitals from the peripheral world to the developed one. However, in the Brazilian case, there was not a flight risk, but, quite the opposite, an intake of resources that generated a negative side effect: real valorization. Less dependent on foreign markets, India was also able to sustain its rate growth. Among the BRIC nations, Russia was the most vulnerable one due to its heavy dependence on oil and gas exports. Also, Russian banks invested in bonds that lost their value.

The crisis revealed a new geoeconomic balance in the world economy, an ongoing process linked to the redistribution of global economic power worldwide. This change was made clear when the G20 was chosen as the forum to discuss and present solutions for the international crisis. Aside the limits of this institution and the results reached in its meetings, it is clear that its choice as the arena to answer to the crisis is a concrete reflection of the changes in economic power. Since the beginning, it was clear for developed nations that both the G8 and the Bretton Woods institutions were either insufficient or inadequate to present a

global agenda to fight the crisis. It was most necessary to give some leverage to the governments of emerging economies, in particular China, since its weight in global trade made it a decisive nation for the establishment of a global agenda for recovering global growth.

In addition, on the BRIC side, there was a perception of the new role played by them in the world economy that strengthened their interdependence. When Goldman Sachs proposed the BRIC acronym, it was a strategy designed for financial markets to pinpoint investments. However, with the crisis, Brazil, Russia, India and China were able to identify a common strategy for growth that brought them closer. These nations are still experiencing a period of development and the process of the financialization of wealth is insufficient for its demands. The crisis allowed them to present an alternative political agenda that argued in favor of a greater regulation of international finances. This agenda was of utmost interest for Brazil, since it could prevent an excessive flow of currency that was making real higher. Of course, there was no support from developed nations. However, the alliance that established itself in the context of the crisis and the G20 was able to enlarge its agenda, and to incorporate South Africa in the bloc.

Despite the alliance, some difficulties remain. Due to China's weight in the world economy and its reserves, it is most relevant that this nation should acquire some sort of responsibility for the stability of international economy, in particular in the exchange rate market: a low price for the yuan leads to distortion in US-China bilateral trade, and also with Brazil. This trend that weakens the BRIC, since Brazil is avoiding pressing China either in the alliance or in the G20 regarding exchange rates issues.

Brazil's choice can be explained by the relevance that the BRICS have for the nation. Whereas China has significant political, economic and military resources that allow it to act unilaterally, Brazil depends more heavily on institutional power and alliances to pursue its goals. It is Brazil specific interest that the G20 would be able to alter the regulatory standards of international finances, so that the country would not be pressed to deal with the political and economic burdens of a unilateral decision. Further on, Brazil's policies towards the BRICS will be discussed, as well as its actions in the G20, in a moment in which developed nations are choosing not to build a global consensus over the international financial system, giving preference to unilateral policies to fight the crisis.

## Brazil and the “RICS”: setting the agenda

As discussed, the 2008 financial crisis revealed the changing patterns of the world’s economic balance and spheres of political influence from the North to the South. Also, it showed the structural imbalances that were affecting the Northern nations domestic politics, in particular the US. However, it should be stressed that the growing political and economic clout that allowed South nations to present a more unified agenda was only possible due to their own reforms. These reforms focused on two agendas: the domestic one and the foreign policy ones. Their main goal was to reduce their social, political and economic vulnerabilities and also to present a more autonomous stance in international affairs. By focusing on these strategies, the countries that ended up composing the BRICS gained some leverage towards the North and distanced themselves from the traditional Third World.

In fact, in addition to the “BRICS” idea, some analysts started to define these nations as part of an emerging “Second World” (KHANNA, 2008). This “new” concept was built from the perception that the growth and autonomy reached by these nations set them apart from other poorer nations of the Third World (that would be more restricted to the LDCs – less developed countries), but still were distant from First World social standards. The North-South divide was preserved, but the South itself was divided from within. Moreover, the concept reviewed previous notions of the “worlds” that were common during the Cold War whereas the Second World was once restricted to the communist bloc. Therefore, their path of reforms enabled them to play a different role in the system’s balance of power, either as individual nations or by working together in traditional or new born alliances.

In Brazil, these reforms were conducted during Luis Inácio Lula da Silva government (2003/2010) and have been somewhat maintained by his successor, President Dilma Rousseff (2011/2012), both from the Worker’s Party (PT – Partido dos Trabalhadores). Lula’s domestic and foreign affairs agenda represented a “turn to the left” from the previous patterns endured by Brazilian politics during the 1990s. From Fernando Collor de Mello (1990/1992) government to Fernando Henrique Cardoso one (1995/2002), the country experienced a low profile behavior inside and outside its borders, promoting a clear alignment of its policies to the US and the neoliberal agenda of the Washington Consensus.

As exceptions to the rule, Itamar Franco (1992/1004) brief administration after Collor's impeachment due to corruption accusations and Cardoso's second term that focused on South America and South-South relations whereas promoting the stabilization of Brazilian economy with the Real Plan (Plano Real, 1994). Although Cardoso sustained the main core of its policies in the North-South realm, while enduring moderate criticism towards the unequal effects of globalization for developing and developed nations ("asymmetric globalization" was the concept), the period from 1999 to 2002 showed some new tactics of engagement in South America with regional integration projects such as IIRSA (Integration of South American Regional Infrastructure) and a new rapprochement towards middle powers such as India, China, Russia and South Africa. When Lula came into power he continued these projects and deepened them, by changing the axis of Brazil's agenda to South-South relations. And, in regards to this South-South axis, policies that focus on LDCs and on other emerging nations that would comprise the BRICS group.

In a general overview, Lula's government had a very clear focus on internal development and on international affairs, in a "more assertive, high-profile diplomacy with a sense of pride" that allowed the nation to better understand its place in the world as an emerging power, as defined by Vizentini (2008). Considering domestic policies, this focus on internal development was based on strategies to overcome poverty, improve educational policies from the bottom up (alphabetization and expansion of the access to free public schools for children till the university), infrastructure works and health. These projects were closely linked to the United Nations Millennium Goals. Some of the most relevant projects in these areas were: "Fome Zero", "Bolsa Família", "Farmácia Popular and "HIV AIDS program".<sup>5</sup> Moreover, these projects were used as international assets to increase Brazil's technical cooperation with other Third World nations. In fact, these actions contributed to Brazil's soft power gains because these "models for dealing with poverty, hunger, education and health and most of them are internationally regarded as effective" (OLIVEIRA, 2010, p. 139).

Added to these efforts, Brazil main core foreign policy was, as mentioned, the strengthening of its South-South cooperation efforts, regaining Third World

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5 Fome Zero represented the fight against hunger, Bolsa Família was a small wage that low income families and under the poverty line ones received each month, for each child (conditioned that each child is at school). "Farmácia Popular" allows people to buy drugs more cheaply or get it for free and HIV AIDS program guarantees free treatment for all HIV patients.

links and horizontal alliances. These coalitions were present in the bilateral level and also in the multilateral one, composing a very complex pattern of alliances. For Brazil, it proves to be a very interesting venue to exercise its leadership focusing on soft power and to reduce the competition with Russia, China and India in some arenas. In addition, it helps the country to be a political equal of all these nations, despite its lack of compatible military power. On the other hand, for Russia, China and India, Brazil emerges as a reliable partner and a path to open doors for business and political links in South America.

Nevertheless, one should be reminded that South-South cooperation does not exclude several venues of South-South competition for markets and influence in the world, and is often explored by the US in trying to “divide and conquer” the alliances of emergent nations. So far, the US continues to sustain itself as the main partner of these nations and also some of the emerging nations, such as China, have more assets and economic powers than the other partners. Therefore, alternatives have to be maintained by Brazil in all fields. In this sense, this focus on the South-South axis was not designed to exclude North-South exchanges and Brazil, in this sense, preserved its relevant bilateral relations with the US and talks with Japan, the European Union as a bloc and, also, with separate EU nations. So, Brazil was not abandoning former partners from the developed world, or seeking confrontation, but refocusing its attention to nations and blocs that represented more opportunities of political, social, economic and strategic alliances.

This situation would increase the odds of a more comprehensive unified action: since these nations have similar domestic problems and external interests<sup>6</sup> it would be easier for them to compose coalitions in international organizations forming a front to deal with developed countries pressure and to create new frameworks of cooperation to pursue their demands. Some of these common interests refer to the fight against social inequality, fair and just trade, multipolarity in world affairs and the reform and update of political, commercial and financial trade institutions.

Also, it would reduce the level of vulnerability of the nation in these relations and increase its prospects of leadership in some arenas, in particular towards LDCs and in South America. The BRICS<sup>7</sup> development, in this sense, originated

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6 Check VISENTINI e WIESEBRON, 2006 for an analysis of these agendas.

7 IBSA is another one of these alliances amongst Third World emergent nations, composed by India, Brazil and South Africa. The group acts on several areas of cooperation, from technical agendas in the areas of education, health, technology, military exercises and economics.

in Brazil's stance in this field and also the other "RICS", that viewed the alliance as an opportunity of concerted action within existing international organizations and outside them, as a separate group itself with its own agenda, in particular after the 2008 crisis and in the G20. But how did the BRIC evolved from an acronym created by an analyst to an alliance of variable design that is being considered one of the most relevant blocs of nations in defining the future and balance of international affairs?

The alliance evolution can be understood by considering three complementary factors: the growth and assertiveness of emerging nations that reduced their dependence on the North, the decline of traditional powers and the absence of reform of traditional multilateral institutions such as the United Nations, the G-8, the IMF and the World Bank, preserving the structural dominance of the North in them, in spite of the changing balance of power, even before the 2008 crisis.

So, the BRIC, now BRICS, and other similar alliances, evolved into a bloc in order to push for these reforms, and update, but also as an alternative venue for these nations to present and pursue their agenda since their demands are not being heard elsewhere. This movement is defined by Walt (2002, p. 126-127) as "soft balancing": a balance that generally accepts US current hegemonic position and dominance, but tries to overcome it through diplomatic actions in multilateral organizations.

Although main theoretical analysts such as Brooks and Wolhforth (2008) and Ikenberry (2012) dismiss "soft balancing" as effective as a means of pressing US agenda or any multilateral institution, arguing that the US still commands the majority of political, economic and diplomatic resources nowadays) reality is proving to be very different. Although there are significant problems of coordination among the BRICS, as will be discussed in the final section of the paper, mainly generated by a well-known mechanism of State policy, the pressure of internal affairs on external policy decisions (as well as US pressures and benefits), some relevant steps were achieved, including the establishment of the G20 as the preferential arena for dealing with the 2008 crisis, instead of the G8 (or "enlarged" G8 meetings with China, Brazil and India as "guests" as previously experienced). As noted by Xinbo (2010),

For more than three decades, the Western countries had used the G-5, G-7, and G-8 to monopolize international macroeconomic policy coordination, and Washington, as the leader of the Western world, had



been able to sell its ideas regarding international macroeconomic policy among its developed followers. Now, with the G-20 replacing the G-8 as the major platform for discussing the world economy, developing countries have a forum to voice their concerns more effectively and loudly. Unlike developed economies, they are more suspicious of the U.S. role as either a model of development or a leader in pursuing international economic governance. Although the U.S. voting power in the World Bank has not shrunk nor will its quota in the IMF in the near future the increase of the weight of the emerging markets and developing countries in those institutions will make it more difficult for Washington to gain support for its positions in the future. (XINBO, 2010, p. 158)

I should also be noticed that a more significant leap forward for the BRICS came after the First and Second G20 Leaders Summit, November 2008 in Washington DC and London, 2009. Brazil, under President Lula, played a very significant role as the speaker for the BRICS, alongside President Hu Jintao from China. In 2008, although developed nations recognized the need for structural reforms, the pressure was directed to emerging nations to increase their contributions to development funds and policies of adjustment and fiscal responsibility. At the end of George W. Bush presidency (2003/2008), this Summit was highly expected since future President Barack Obama was elected with a rhetoric of reform of multilateral talks, but since Obama was not in the White House, US actions were limited. In April 2009, the pattern was relatively the same, in spite of Obama's administration was already in place. In fact, US policy choices limited to pressure emerging nations, whereas sustaining unilateral agendas in their economy, which is still the dominant dynamics even today: not only the US continue to flood the market with dollars but also passed internal protectionist legislation in packages of stimulus, such as the "Buy American" provision.

Therefore, led by Brazil, the BRIC held its First Summit in June 2009, in Yekaterinburg, Russia, reinforcing their unity and will to continue demanding an update of the international system and a more proactive G20 action. This reality is expressed at the Joint Statement of the BRICS Countries Leaders:

1. We stress the central role played by the G20 Summits in dealing with the financial crisis. They have fostered cooperation, policy coordination and political dialogue regarding international economic and financial

matters. 2. We call upon all states and relevant international bodies to act vigorously to implement the decisions adopted at the G20 Summit in London on April 2, 2009. We shall cooperate closely among ourselves and with other partners to ensure further progress of collective action at the next G20 Summit to be held in Pittsburgh in September 2009. We look forward to a successful outcome of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development to be held in New York on June 24-26, 2009. 3. We are committed to advance the reform of international financial institutions, so as to reflect changes in the global economy. The emerging and developing economies must have greater voice and representation in international financial institutions, whose heads and executives should be appointed through an open, transparent, and merit-based selection process. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system. 4. We are convinced that a reformed financial and economic architecture should be based, inter alia, on the following principles: -democratic and transparent decision-making and implementation process at the international financial organizations; -solid legal basis; -compatibility of activities of effective national regulatory institutions and international standard-setting bodies; -strengthening of risk management and supervisory practices. (BRIC, 2009)

As it can be noticed by this statement and the following ones in Brasilia (2010), Sanya (2011) and New Delhi (2012), regarding the framework of “BRICS Partnership for Global Stability, Security and Prosperity”, there are no significant changes in their demands and stances. Mostly, the focus still remains in the core of the first statement, and signals the possibility of a more autonomous path of these nations as a formal international organization. In spite of political difficulties and changes in power, from Lula to Dilma, Brazil is also trying to lead the group. These difficulties of coordination, and China’s links with the US and its own unilateral stances, sometimes hinder the prospects of deepening the cooperation within the group. Nevertheless, their united front has been sustained in the G20 meetings of Seoul (2010) and Cannes (2011)

In comparison, both the G20 and the BRICS prospects in proper dealing with the financial and economic crisis that still is affecting the traditional economies are still low, since in Western Europe and the US the path is still unilateral an inward.

In a sense, the structural realities of multilateral institutions and power of nations makes it very difficult for either side to set an agenda. Traditional Western powers, mainly the US, are still powerful enough to resist the South pressures for adjustments, even though they cannot put additional pressures on them. For their part, emerging nations and LDCs are growing in relevance but still are unable to surpass this North resistance. As other multilateral issues and cooperative diplomatic agendas, when there is no consensus both sides are only able to resist instead of imposing their views. The system, and talks, reaches a deadlock as a result.

For Brazil, nevertheless, both, the G20 and the BRICS still represent multilateral institutions and alliances that should be viewed as priorities, since the nation still lacks significant power resources to push for its demands on its own, either in the soft or the hard power arena. Even though the country, as mentioned, is able to pursue a significant agenda of cooperation with emerging nations and LDCs, in particular in the social arena, it still lags behind China's, and even India's, financial assets. Therefore, the country faces strong competition by these nations in market access and political influence, and both are viewed as more strategic for US interests due their military power and Eurasian geopolitical location. So, the US tends to offer more trade and strategic benefits for both, such as bilateral agreements and technological transfers than it offers Brazil. In this sense, in Eurasia, China and India growth contain each other and also Russia revival.

On the "bright" side, however, Brazil is the less vulnerable "RICS" in relation to US economy and strategic pressures. On the "negative" side, Brazil has to avoid recreating this vulnerability with other nations, such as China, which replaced the US as Brazil's main individual partner. So far, President Dilma seems to be still focusing on South-South cooperation, avoiding previous alignments with this partner, but the record of Brazil's present foreign policy is yet to be seen. Nevertheless, Brazil still bets on multilateralism either in the G20 or the BRICS, and both, to sustain its autonomy and high profile diplomacy, in spite of unilateralism shadow due to the ongoing instability and world economic crisis.

## Final thoughts

The international crisis length is reaching four years and there are no prospects in the picture to indicate that conditions for the recovery of the world economy, in particular in developed countries. Although there was an im-

provement in US economic indicators, several imbalances remain, and the levels of unemployment remain a significant problem in the majority of the nation. JPMorgan Chase losses in derivative markets expose the vulnerability of US big banks, but also of the whole financial system, due to the absence of a new regulatory standard, that lessen the compromise of high-risk stocks investor. In addition, it is clear that the deepening of the European crisis, due to the bankruptcy of more countries or the increase of the Greek crisis would impact US banks: then, the crisis that the US exported to Europe, would go back to the US again.

Europe's effort to contain the crisis through fiscal adjustments is only justified in a context where the goal is to regain the credibility of the weakest nations of the bloc to afford its debts. This solution, however, is not capable to promote the recovery of national economies and to promote growth in the short run, which is leading to an increase in social and political problems for governments in power. The socialists (PSOE) defeat in Spain and of right wing Sarkozy in France indicate that electoral results are not linked to the choice of a conservative or social democrat party, but to the ability of governments in power to provide an exit for the crisis.

Monetary union limited the choices of national political economies and markets, mostly through ratings agencies, limited these actions even more when penalizing countries by downgrading their debts in secondary markets, forcing them to adapt their fiscal policies to creditors demands. In this context, European recovery is going to be slow and the crisis may still get worse before some recovery. In Spain, one of the weakest links of the European Union, there is a bank system reform going on, trying to reorganize the system after the crisis evidenced from the Bankia situation, the most significant savings bank of Spain, controlled by politicians liked to the Popular Party of Prime Minister Mariano Rajoy, which was experiencing significant losses in real estate business. The Spanish government is going to aid Bankia with resources due to the crisis and, depending on its evolution, it might have to flexibilize fiscal goals for 2013.

Another shadow on the world economy can be cast by China, even though Chinese growth still remains significant when compared to other world major economies, it is in decline. Although an average rate of 7 to 8% growth of the GDP is clearly still significant, it would reduce Chinese demands for imports, which could prove a disaster for already weak economies. For instance, a cut on Chinese imports from Germany and Brazil could make the European crisis worse and difficult the recovery of growth in Brazil. The growth could also enhance the Chinese

option for a devalued exchange currency, which would only deepen international monetary imbalances.

Politically, the prospects of bigger difficulties in the near future are a sign for the need to enhance multilateral forums to deal with the crisis. The G20 should be viewed as the arena to reduce the differences among the proposals of different nations and to point out new fields of action. However, the political uncertainties regarding the current distribution of economic power in the world hinder this possibility. On the one hand, each government is trying to make its nation's problems universal which prevents a comprehensive understanding of the crisis (and also unilateral actions made it even more difficult for multilateral forums dialogues). Moreover, even though there were changes in the world economy, US and European Union weight are still very significant. Among emerging nations, China is the only nation that is, in no doubt, a world power. However, several questions remain regarding Brazil, Russia, and India relevance in the world economic balance and their weight in world politics. So, several uncertainties remain regarding this ongoing process of transition, relative power balances, and this an issue that tends to limit changes in existing institutions and difficult the creation of new ones.

Moreover, the different economic structures of emerging nations linked to different goals of international economic projection make it more difficult to establish a common political and economic project to present an unified position whereas facing developed nations. Even though there is a clear political will among emerging nations to get together and to argue in favor of a new distribution of power regarding decision making procedures for international economic relations, the process is slower. In 2012, the last BRICS meeting in India reflected this scenario. India's proposal for the creation of a developing bank was very well received at first. However, when it came to the point to establish some concrete measures, the difficulties embodied in the proposal were evident. From the start, the Chinese were interested in running the bank, which was not accepted either by India or by Brazil.

However, for Brazil, the G20 remains as the main forum for dealing with the international crisis, as well as the BRIC alliance. Although the G20 still faces several limitations and developed nations most frequently choose unilateral actions, for Brazil to legitimize the G20 as the most adequate forum for dealing with the international crisis is very important. The reason is that the G20 is closely linked to the increase of the country's international projection, since in this forum its

positions regarding economic issues can gain some weight in the decision making process. If these talks were to be moved to the IMF or the G8, it would represent an influence loss for Brazil. On the other hand, the establishment of the BRICS group represented Brazilian's diplomacy boldest move in the field of alliances of variable design and South-South cooperation.

The choice for the BRICs represented Brazilian willingness to take part in the decision making process of major international policies issues. In the absence of political-military power when compared to the other allies, Russia, India and China, Brazil is able to enhance its influence in international institutions and to strengthen its stance as a leader from the South. Also, Brazil tries quite often to place itself as a mediator between North and South, even though this strategy presents some problems, since there are still relevant differences of opinion among South nations, in particular regarding relations with the North (and the US mainly). The differences in the exercise of Brazilian foreign policy and the soft power that comes within the nation's foreign policy tradition, allow the country to be more benefited by the BRICS in international talks than its partners.

The length and depth of the crisis are going to define the level of power redistribution in the world scale and, therefore, the BRICS and the G20 relevance. Since the end of the Bretton Woods system, there is an ongoing debate regarding US hegemonic decline, and, so far, the US made unilateral use of their monetary power to reorganize international finances and to reinforce the US dollar weight has proven the opposite (allowing the nation to recover its role in the world economy). Japan's rise in comparison to the US made Giovanni Arrighi (1994) bet that a new cycle of accumulation was beginning, this time led by Japan. As it can be seen clearly, the trend identified by Arrighi fell short. So, it is too soon to define which role the US is going to play in the next decades. The country still holds a significant advantage, which is to be the holder of the main currency of the system, added to its political-military power. Therefore, it is necessary to wait to see how the US answers to its current relative decline, examining the economic policies that are going to be adopted, its foreign policy and, also, the behavior of emerging economies towards US reactions. In a scenario of US renewal, will emerging nations sustain their alliance and the goal of creating its own agenda? Or will they seek to rebuild their political and economic relations with the US, once more in a period of economic expansion?

If China maintains its growth, the BRICS nations economic integration and China would be put forward by the market. So far, if these nations are benefit-

ing from Chinese growth, their independence tends to hold still. On the other hand, one cannot ignore the competition that still remains in the economic relations of these nations. Brazil and India intend to keep its industrial development going, and as long as they succeed in reaching this goal, they will fight China over markets. Russia is also seeking to diversify its economy, and the need for technological updating to increase Russia's industry competitiveness in the international economy is present in the government's speeches in a significant way since the beginning of the 21<sup>st</sup> century. Therefore, if the projects of development of these nations succeed, there should be an increase in economic competitiveness, which may hinder their political alliances, even without considering US role. Apart from the perception that the system is economically multipolar, several uncertainties remains regarding how this new world economy would be organized institutionally and how power is going to be shared among several players. And, since keeping multipolarity alive is a strategic goal, the option for the G20 and the BRICS is justified.

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