

## GEOECONOMIC POWER OF LATIN AMERICA IN 21ST CENTURY

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**ABSTRACT:** The turn of the 21st century presents a range of new factors for understanding global productive structures. Geoeconomics assists geopolitics in the exercise of understanding the strategic dimensions of nation states. Thus, in this article I analyze the recent geoeconomic context of the international relations of the multilateral organizations of Latin America, correlating the recent global productive restructuring emphasizing the general points of overvaluation and subsequent devaluation of commodities in the first two decades of the century.

**Keywords:** Geoeconomics, Geopolitics, commodities, Latin America, International Relations.

**RESUMO:** A virada do século apresenta uma série de novos fatores para a compreensão das estruturas globais de produção. A geoeconomia auxilia a geopolítica no exercício para entender as dimensões estratégicas dos estados-nação. Portanto, este artigo apresentará uma análise de contexto geoeconômico recente das relações internacionais de organizações multilaterais na América Latina que correlacionam o recente processo de reestruturação global, destacando os pontos gerais de supervalorização e subsequente depreciação de commodities nesses países nas duas primeiras décadas do século.

**RESUMEN:** El cambio de siglo presenta una serie de nuevos factores para la comprensión de las estructuras de producción globales. Las asistencias geopolítica geoeconómicos en el ejercicio para entender las dimensiones estratégicas de los Estados-nación. Así que en este artículo se presentará un análisis de contexto reciente geo-económico de las relaciones internacionales de las organizaciones multilaterales en América Latina que correlacionan el reciente proceso de reestructuración global destacando los puntos generales de sobrevaloración y la subsiguiente depreciación de los productos básicos en estas dos primeras décadas del siglo.

**Palabras clave:** Geoeconomía, Geopolítica, commodities, América Latina, Relaciones Internacionales.

### Latin American geoeconomics in approach

In the studies of international relations, the central themes are the questions linked to the social, economic and political relations between the Nations whose reflections are cross-border. States, transnational corporations and multilateral organizations emerge as the main international players. We will present brief considerations on the geo-economic context of Latin America in the twenty-first century, passing through the central themes of the international organizations, understood here, as global regional institutions that establish

basic strategies in foreign relations through agreements, treaties and conventions between States Nations, corporations.

For this exercise, from the theoretical point of view, we agree with Hodgson (2006) that the institutions regulate the social, political and economic life of society, in other words, they establish the rules of the game. The [...] Institutions are the kinds of structures that matter most in the social realm: they make up the stuff of social life [...] (p.2). Bringing to our empirical analysis, multilateral agencies are institutions that consolidate countries' political and economic strategies on common agendas, or not. To contextualize this article, we will use South America as an example, highlighting some aspects of its multilateral organizations.

During the last two decades of the 20th century, 1980 and 1990, South America had low growth rates, high unemployment rates and high social exclusion. This panel was sharpened after November 1989, because of the measures implemented in the Washington Consensus recipe that allowed the rise of a neoliberal wave in Latin American players (EGLER, 2008).

We may list some multilateral organizations of that period, such as the Free Trade Area of the Americas (1994), the North American Free Trade Agreement (NAFTA), CAFTA-DR - Central America Free Trade Agreement and Dominican Republic (Free Trade Agreement between the United States, Central America, and the Dominican Republic), which had common characteristics such as higher interest rates, exploitation of neighboring countries' labor force, privatization and public services, and would be established development macrometas By the IMF to be reached by the Latin American nations, and evidently monitored by the US hegemonic power (EGLER, 2009).

However, in the first decade of the twenty-first century, we saw a braking of the gallop of neoliberal ideology in South American space with the election of governments that in their management the state apparatus had a greater social orientation in the implementation of public policies, especially in the period between 2002-2014, ad exemplum, Luiz Inácio Lula da Silva (2003-2010) and Dilma Rousseff (2011-2016) in Brazil; In Venezuela with Hugo Chávez (1999-2013); Néstor Kirchner (2003-2007) and Cristina Kirchner (2007-2015) in Argentina; In Bolivia with Evo Morales since 2006, that even, there is already a negative signal regarding the continuity of management from 2019, a year that Bolivians will go to the polls.

But before discussing the interruption of "left" governments, something recent in international politics, let us see what the effect of the movement is on the neoliberal model at the beginning of the twenty-first century. This geopolitical conjuncture prompted a productive restructuring in the main economies of the continent, consolidating a period of bonanza, characterized mainly by the rise in commodity prices that allowed, between 2002 and 2012,

Latin American GDP growth of 4% per ECLAC data - Economic Commission for Latin America and the Caribbean (ECLAC, 2013).

The positive balance in the economic development indices allowed for a geoeconomic and geopolitical redesign in Latin America, since the period coincided with a new international multipolarized game, different from the bipolar model of foreign relations during the Cold War (PECEQUILO, 2013). Thus, the new global panorama outlined at the beginning of the century brought to the table new agreements, treaties and international conventions necessary to meet the new international cooperative arrangements in South America, this pattern of relations between the nations of the continent and, in the Hemisphere South became known as South-South relations.

Moreover, in the debate on the South-South multilateral organizations during this period of prosperity in the South American countries, let us not forget that Mercosur, created in 1991, was more representative in this context and was strengthened to strengthen regional integration in South America, and even served as political-ideological alignment of the governments of the participating countries. Phytosanitary agreements, economic cooperation, diversification of investments entered the agendas of the countries of the bloc, guaranteeing a minimum of regional integration.

In explanatory terms, the new cooperation fueled the emergence of both new multilateral organizations and the strengthening of new initiatives for regional integration projects in Latin America. We can highlight the IIRSA - Initiative for the Integration of Regional Infrastructure in South America, which aimed at the physical integration of countries, modernizing transport, energy and telecommunications infrastructure through joint international / regional actions; UNASUR - Union of South American Nations to mention some of these multilateral initiatives.

Therefore, there was a geoeconomic and geopolitical rearrangement in the South American space, and, added to this aspect, the entry of the products of the South American countries in the Asian markets was decisive. Due to the weight of rising prices of agricultural and mineral commodities in international markets, this prerogative was a domino effect, increasing foreign investments in Latin American space, even after the economic crisis of 2008.

More recently, the creation of a common agenda among countries that sought to strengthen themselves in a new South-South relations pattern, could be consubstantiated with the regimentation of the BRICS countries alliance between Brazil, Russia, India, China and South Africa. Five of the leading late industrialization countries at the turn of the 21st century achieved prominent industrialization in global regional spaces (AMSDEN, 2001). BRICS, which accounted for 9% of world GDP in 2009, after joining the bloc, the group's share rose to

14%. In 2010, the combined GDP of the five countries totaled US \$ 11 trillion or 18% of the world economy (BRAZIL, 2016).

In addition to establishing strategies to improve their representativeness in their respective countries, for the democratization of international governance. They have signed a new multipolar structure of contemporary capitalism, including with direct claims to the UN Security Council. Multiple demands play a central role in driving the development of the nations of the bloc, for example [...] Five years after the first Summit, in 2009, intra-BRICS activities already cover about 30 areas, such as agriculture, science and Technology, culture, outer space, think tanks, Internet governance and security, social security, intellectual property, health, tourism, among others [BRAZIL, 2017].

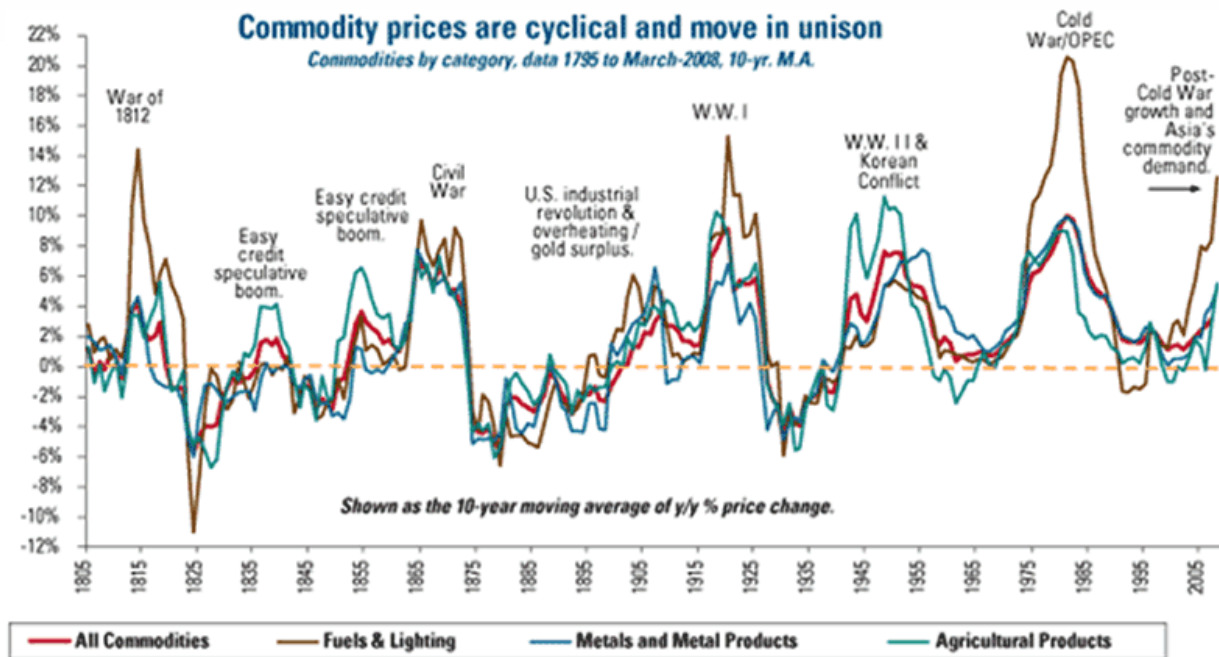
The architecture of the BRICS was held at a time when the international economy presented its main aspect that marked the first decade of the twenty-first century, whose Chinese demand intensified the process of appreciation of commodities prices and economists called the supercycle period "[...] a rare period of higher costs underpinned on the demand side by the industrialization and urbanization of emerging countries, notably China, and on the supply side by years of under investment during the 1980s and 1990s [...]" (BLAS, 2012 , P.1)

Given this geoeconomic context, international markets, especially emerging markets, continued to push their global commodity chains towards Southeast Asia, as they expected a "regional overflow of the development supercycle" in which India and Indonesia Follow the same trajectory of Chinese industrial development. The supercycle promoted, at the turn of the century, an appreciation of the commodities never seen during the last century.

For example, for 100 years (1905-2005) the commodity price index, developed by the Global Mckinsey Institute, which includes 4 subgroups: Energy, Food, Agricultural Commodities and Minerals, declined 50% in real terms because of the technical improvement of Industry and lower demand from developed countries for basic products (LAZZARINI; JANK; INOUE, 2013).

In the early 2000s, the combination of technological progress, improved transportation, rapid urbanization and industrialization in the late industrialization countries boosted the commodity price index by 177 percent. In this account, we put the economic growth of the BRICS countries, this allowed the commodity price index that had a hundred years of depreciation marked mainly by the crisis of 1929, two world wars and the oil crisis in 1970, to recover at accelerated rates (Figure 1).





Source: Stifel Nicolaus & Co., Stifel Nicolaus format, data Historical Statistics of the United States, a U.S. Census publication, EIA, USDA. 2008E data point incorporated into the last 10-year moving average was March-2008 over March-2007.

Figure 1: commodities supercycle 1805-2005

To be exact, this phase of the supercycle was mainly characterized between 2002 and 2012, when China's growth rates were extremely high. However, adding to the effects of the global financial crisis of 2008, the commodity super-cycle will begin to show signs of declining to 150% of last century prices in 2011 (IMF, 2013, BLAS, 2012). Although, with the contraction of commodity prices they continued, in 2014, to 160% above what was in the outbreak of the crisis.

Iron ore is an example that we can use, per Mckinsey's price indexes, the ton was quoted at about \$ 84.14 in 2013, while the super cycle (2002-2012) was sold at \$ 200/Ton. Much higher than was marketed in the pre-supercycle period, which was around US \$ 15 to 20 (BLAS, 2012). That is, the supercycle did not end as many economists gave the sentence, on the contrary, it continues at slower rates, including the studies of Dobbs et. Al. (2013) and Alston; Babcock and Padey (2010) attributed to this issue of commodity prices that will remain high and volatile for another 20 years.

This volatility is classified into two short-term situations: driven by the issues of natural disasters such as torrential rains causing floods and tornadoes, intermittent droughts as happened in southeastern Brazil in 2015 that increased the costs of ethanol by 20%, labor strikes, and export restrictions, such as the tariff barrier of US \$ 0.54 per gallon (3.78 liters) for Brazilian ethanol entering the US and even military conflicts in oil areas.

In another aspect, the long-term volatility, related to the supply of new international markets in which it is difficult to meet the demand for access difficulties to new oil exploration

techniques in deep waters; The exploitation of iron ore deposits in regions of traditional communities and / or the expansion of monocultures against the pressure of social movements serve as an example of the issue associated with long-term volatility

However, in 2013, the roller coaster commodity prices began a vertiginous fall taking a bump from the Latin American economies that had centered their development strategy backed by tradables (RIBEIRO SILVA, 2016). To have a notion, the fall in prices of iron ore and pig iron between 2011 and 2015 registered the average mark of 50% according to ECLAC. This means that Brazil, Venezuela and others felt the weight of the global economic crisis and the decline in commodity prices (oil, iron ore, gas and coal) and sank a 0.3% recession in 2016 according to IMF data.

The US and its shale oil exploration has given a new geoeconomic and geopolitical outlook for oil barrel prices, additionally, the warming cold of Chinese economic power has caused what the decline of the roller coaster commodity prices (agricultural, Minerals and energy) was much faster than expected.

However, caution is needed in analyzing the complex contexts of multilateral organizations in Latin America, given the contours of the economic development experienced by these countries. The exercise is peculiar and interesting: It must recognize the existence of two basic dimensions in the construction of multilateral organisms and the understanding of economic growth at the beginning of the century. XXI: a geoeconomic and a geopolitical dimension.

Let us begin to explain the geopolitical dimension, after the diminution of the hegemonic power of the USA under South America, just by the rise of social governments, and the consequent rejection of Washington's recipes gave the necessary impetus to the formation of a multilateral bloc with institutions and States Latin American nations oriented to economic and strategic cooperation. In addition, geopolitics manifests itself in the evident policies of nation states, precisely in the consolidation of regional power pacts, access to strategic markets for the supply of technological inputs or raw materials, military power, bilateral agreements and national sovereignty.

On the other hand, the geo-economic dimension is not dissociated from geopolitics, since the partnerships with Asian markets, especially China, stimulated the development and investment of sectors such as energy, commodities, telecommunications, transport and logistics.

Still in the field of our geo-economic approach to commodity production and extraction, that is, in the area of tactical control of the resources and networks present in the territory of each nation-state, it remains to be seen whether for the next rise in prices of tradables, Estimated by 2022, the countries of late industrialization will be organized for the

old / new challenges posed for economic growth in the world such as renewable energies, climate crisis, overpopulation in global metropolis.

Since the strategy established in the international partnerships, the possibilities of complementarity of the countries resulting from the bilateral and multilateral agreements were tactical and, from the territorial point of view, imposed a new developmental logic centered on the geo-economic power offered after the international regional alliances. In this equation, multilateral unions such as BRICS consolidated the South-South strategy by distancing the productive focus of the dynamic center of the globalized economy represented by the United States.

We can also cite here, in this exercise, the identification of the multilateral organizations whose late industrialization countries form a common agenda, the G-20 trade initiative created in 2003 and fostered within an expertise for multilateral negotiations with the WTO - World Trade Organization. In this group, the BRICS - Brazil; China; Russia; India and South Africa have a strategy among emerging countries, with well-defined goals in terms of global governance

In any case, the result of the articulation of these two spheres (geopolitical and geoeconomic) has led the late industrialized countries to erect a consolidated multipolar structure in regional blocs such as Mercosur and other regional integration initiatives, as well as the regimentation of BRICS and numerous agreements and events already held.

The concern that needs to be resolved at this moment is whether the measures taken so far by Brazil and other Latin American countries in the sense of regional integration and international cooperation will not be neutralized. Since there is a revisit to the neoliberal model, whose state capitalism, known in Brazil as a neodevelopmentalist current, has been deconstructed by partisan analytical biases that disagree with the state's great investments in the economy, for example, sectors such as energy, infrastructure works.

The yellow alert was given, given that such investments in agro-exporting countries such as Brazil and others in South America are essential for the resumption of growth / development. Making this effort of a decade and a half (2000-2015), and moving to a neoliberal bias, can have a strong effect on Latin American regional integration or on the economies of these countries. It is a geopolitical challenge, but it undoubtedly concerns the geo-economic challenges of the 21st century.

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