

GEOPOLITICAL CHALLENGES OF 2021

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February 2021

*... is that in the treacherous world there
is nothing truth or lie, everything is according
to the color of the crystal with which you look*

Love and the Stone River
R. Campoamor (1901)

Introduction: Between Financial Exuberance and the Royal Depression

The end of the second decade of the XXI century found analysts of the world economy worried about the discouraging signs it was showing; outlook is therefore dominantly pessimistic, with the recovery of growth was found to be, after the financial crisis of 2008-2011, despite the measures taken, were not as effective as expected; aggravating the overall picture, due to the deterioration associated with the corona virus pandemic and the reduction of activities, correlative to "isolation" as the dominant tool used and recommended by world health authorities.

Thus, here we should note

1°) That the desired recovery is conditioned by geo-economic trends existing before the health calamity that has come;

2°) That the economic circumstances for March 2020, the time of the start of the pandemic, were characterized by tensions between financial exuberance and depression in the real economy (production/employment);

3°) That the dynamics of the political and economic subsystems *interact as reciprocal catalysts*, as uncertainty increases, *due to the differential variation of the fundamental referents of each subsystem, with the passing of time¹, and

4°) That the largest guiding institutions in the financial world: the US BRF and the central bank of the European Union announced, in April (2020) that they would continue to provide credit support, to avoid the collapse of international payments; without calming political anxieties... seen the high decibels of international hubbub.

Hence, the tensions in the economic and real markets represent challenges to political leadership; surprised by the demands "here and now" emanating from the anxieties of civil societies... situation classified by the international media as "world economic warfare"² by noting that the economic performance, since the

¹ The socio-political and economic order always results from historical experience; i.e. debtor *situations* economic and social policy of the past; in view of the unfunctionalities detected; as a result of the complex interaction between: *know/communicate or cultural heritage, being able to do or economic scope and social control or political scope*; given the provision of resources in each territory. It should be noted that: functional interactions respond to the objectives/purposes pursued by individuals and their groupings, *causally associated* resources, of all kinds, used/available, (Lemke, J.: 1998). Being the number of functional interactions high, when counting them using the syllogism of symbolic logic (Venn-Euler: 1881). Finally, it should be remembered that the capital factor conditions vary faster than those of the labour factor (Kristensen, 1994 p.44) and that there is still no theoretical consensus on how to mitigate: regularly and sustainably, the natural tendency towards social conflict (N. Ghia, 2002).

² See: Diplomatic No. 24 Les Grands Dossiers

2008-2011 crisis, presented remarkable changes in the leadership of economic growth³ with deep disappointments in the political sphere, related to the low effectiveness of the economic policies put into practice, in relation to the social requirements of employment and relative price stability. See Table No. 1.

Consequently, this essay is devoted to consider the following issues:

- (i) Concepts about "Economic Warfare"**
- (ii) Nations in the face of the "Economic Warfare"**
- (iii) Pragmatism in action**
- (iv) Comedy of errors with the financial weapon:**
- (v) Storms in the International Financial System**
- (vi) Contrasts of experiences**
- (vii) Summary of Conclusions**

Accompanied by Appendices to highlight obstacles in China and Russia; in England and the European Union and the crossroads facing the United States, Latin America and the Middle East.

³ See Table No. 1 of the Statistical Appendix

1. Concepts about "Economic Warfare"

"Maitres Jongleurs, ils transforment le lieu et les personnes, et usent de la comédie magnétique... Leur raillerie our leur terreur dure une minute, ou des mois entiers"

A. Rimbaud (1873)
Les Illuminations/Parade (p 86)

There is no doubt, in understanding by "war", the confrontation of the armed forces (physical clash) between two or more States; and when the qualifier "economic" is added to it, it must be understood that the purpose of "subjugating" one or more States is preserved; replacing the "armed forces" instrument (Clausewitz and Sun Tzu) with economic policy actions, with various instruments: monetary-financial, commercial and computer, not forgetting the psychological, by using the instruments of diplomatic negotiation with varying intensity⁴.

Thus, the characteristic features to be highlighted are concentrated in the *organizational-institutional framework* used; if we accept G. Bouthoul's analyses (1951)⁵; because the confrontation with economic means is governed by variable rules, which form "situations or states of war" that do not imply fighting with military weapons.

Let us also say that the economic confrontation uses institutions parallel to those of the formal markets, by including the "mafias" of organized crime (A. Laidi, 2014)⁶ and to illegal actions.

Here, it should be remembered that the use of violence *is a normal part of the relationships between living beings classified as animals*, including humans... and that, in the case of trade, *seemingly peaceful*, and substitute for the usual prey during prehistory, *classical theoretical economy* or liberal assumes the existence of a turnout or "win-win game", where there are no losers; when, in fact, companies "lose" if they cannot sell all of what is produced and consumers are "frustrated" when they cannot buy what they require.

This implies, according to post-Keynesian theorists⁷ recognize the existence of significant imbalances in different markets by presenting "restrictions" on demand and supply; which forces explicit negotiations⁸ on the relative prices of goods (P) and wages (w), in order to obtain a profit (q).

⁴ An immediate critique points out that the term "Economic Warfare" is a sweetened metaphor, which does not reach a strategic paradigm; making it difficult to understand; being able to answer that the concept of Clausewitz avoids the economic components; therefore, concepts such as "cold war" are moderately understandable.

⁵ Aut. Cit., (1951) Les Guerres: elements de polemologie. Edit. Payot, Paris

⁶ Aut.cit. (2014) La Guerre économique, une réalité" en Les Grands Dossiers de Diplomatie No. 24 (pp 8-13)

⁷ See, among others to J. Benassy, J.P. (1984) Macroeconomie et Theorie du Desequilibre: Dunod/Paris; y Malinvaud, E. (1983) Essais sur la theorie du chomage. Edit. Calman Levy, Paris

⁸ Being illogical the pretension of the existence of automatic corrective mechanisms that would deny the presence of will.

That is where the **economic warfare** is not conceived in the theoretical-practical framework of the liberal economy; context in which the State is an actor *quasi-illegitimate*, which is not part of the *invisible Smithian hand*... The State therefore operates as a visible agent⁹.

In general, in democratic regimes, they intervene through decisions discussed within "*specific commissions* advisers" of the Executive Power; when it adopts the purpose of *protect/stimulate* Civil Society's business activity; when trying to face market *imbalances*: inflation, unemployment and "unfair" external concurrence, or subsidized, by some concurrent State, to reduce the price of the goods or services displayed in the markets... to expand the potential of its exports.

Here we should point out that, as of 2012, similar commissions are being used in China; based on Deng Xiaoping's ideas for negotiating internally and externally, as Xi Jinping reveals (2014)¹⁰. Not to forget the mythical Ministry of International Trade of Japan (1958) and its JETRO (Japan External Trade Organization).

That said, it shows that social economic information and its analysis are *key weapons* in the Economic Warfare; since they constitute the nutrients of the decision-making nodes of international¹¹ and national¹² concurrence; estimating (A. Laidi 2014 p. 13)¹³ that much of the information (90%) is freely accessible, and that the remaining 10% should be considered "strategic secrecy"; which leads to the very old game of espionage and counter-espionage, or "economic warfare in the shadows", which is carried out including paramilitary public services, to collect information using illicit methods... It should be noted here, that this is different from the activity of "economic intelligence" that is concerned with interpreting the information elements, in the light of economic science (economics)¹⁴.

⁹ In the case of the United States, it can be noted, among other bodies, the Advocacy Center of the Department of Commerce (1993), the Bureau of Energy Resources (2011) and the Interagency Trade Enforcement Center ITE (2013). Hence, the programmatic strategy, since the XX century, is based on multiform operational devices of economic intelligence.

¹⁰ Aut. Cit (2014) The Governorate and Administration of China. Foreign Language Editions. Beijing

¹¹ As seen in the diatribe between Trump and Xi Jinping

¹² As revealed by Xi Jinping (2014, p. 24, Note 5) when referring to the system of consultations between the Chinese PC and the other parties and even with personalities without partisan affiliation.

¹³ Aut. Cit (2014) La Guerre Economique. Diplomatic No. 24 (Les Grands Dossiers) p. 8-13

¹⁴ In the business field, the argumentation is prepared for the adoption of decisions in relation to the industrial fabric and international competitiveness.

2. Nations in the Face of Economic Warfare

*"Au revoir ici, n'importe ou...nous aurons
la philosophie féroce...C'est la vrai marche"*

A. Rimbaud (1873)

Les Illuminations/Democracie (p. 144)

From what has been said it follows that if the economic warfare is conducted to prevent/impede, the "subjugation" by another State and to defend the material welfare of the domestic population of another, *public political power cannot neglect the agonizing game* that involves economic warfare; a relatively novel expression which, as we saw in the introduction, makes the classic economic and political, referring to the sphere of material exchanges in the multinational sphere.

Thus, the history of the great geopolitical changes includes fragmentation in the political, economic and cultural orders; and, of course, this implies mutations in the neuralgic centres from which the great national directives emanate.

Let us remember, with regard to the world situation, that, in the ninth decade of the last century, two colonels of the Chinese armed forces: Quiao Lang and Wang Xiangsui, stated in their book "La Guerre hors limites"¹⁵ that the conflict spaces had expanded; including cyberspace, global trade, international finance and the media "board". Thus, it is necessary to examine the two terms of the expression "economic warfare", given that it is the economic institutional circumstances that have changed the most.

Indeed, over the centuries, the economy of "scarcity", of rarity, where the challenge was to produce, has been replaced by "abundance"; and therefore, the conquest of new markets appears in a crowded concurrent space; where producers must face various challenges in order to sell what they produce.

Thus, the logic of classical wars (Clausewitz) or "zero sum game" seems to be a matter of the past: Today, you have to manage with multiple negotiations explicitly in a Schumpeterian context of "creative innovations"... This need is accentuated at the beginning of the XXI century by the presence of financial capitalism, which covers the entire planet; the earnings of the various activities must be contrasted and updated in real time.

It should be noted that, in this enlarged space, the National States have not been erased... the government agent continues to incorporate, since it is accepted that, in the first instance, the will of States, in the political sphere seeks to exercise its influence *through information warfare*, and, in the economic sphere, seeks to influence transactions, through of the agreements relating currency...policy decisions through which strategies are focused on nominal relative prices: interest rates and exchange rates; with a decisive influence on the formation of real relative prices: rate of profit (q) and wages(w), determinants in the final distribution of the benefits of production.

¹⁵ Aut y op cits, (1999) Edit. PLA, Beijing

Having to say that, this scope is conformed as a *minefield* of uncertainty about the stability of these prices; this requires political leaders to have the foresight to deal with rapid change this requires political leaders to have the foresight to deal with rapid change. Therefore, it is not strange that, pragmatically, the most publicly disseminated knowledge is used: the traditional; incurring in lack of logic, having changed the circumstances that originated such knowledge. Let us examine, then, the consequences of such behaviour in the geopolitical context.

3. Pragmatism in Action

*"Je observe l'histoire...aussi dédaignée
que le chaos"*

A. Rimbaud (1873)
Les Illuminations/Vies (p. 90)

Undoubtedly, the United States of America, in the period 1945-1979, formed the heart of the globalized economy, according to the most common macro-economic indicators: international trade and production, among others.

But, starting in the eighth decade of the XX century, *average customs tariffs* assessed under the "Most Favored Nation" (MFN) clause that should allow equal treatment among foreign trade competitors, began to decline gradually: down from 25% in 1985 to 12% in 2000 and to 7% in 2008. According to World Bank data for the period 1981-2010, the lowest rates are found in OECD member countries, at 3%.

Therefore, it was not surprising that, in September 2014, Michael Froman, the US negotiator of trade agreements with Europe (transatlantic space) and Asia (transpacific space) argued before the American Chamber of Commerce that Washington "would support the globalization process, rather than conform it": *defensive posture*, which referred to the need to complement trade policy and national defense policy¹⁶ by relying on "the economic state craft" presented by Obama in 2009, as "smart power", or intermediate position between "hard power" or defense with military means, put into practice by George Bush and the "soft power" applied by the Democratic governments; which included the localization of U.S. companies in China after the "opening" of that market promoted by the Nixon-Kissinger duo.

It must be remembered that this strategy meant leaving Russia the role of supplier of "raw materials" with the use of "Western" technology and financial support... essentially American.

But history tells us that China, in 2006, to complement its foreign trade strategy¹⁷ presented to the world a "National medium and long term program for science and technology development", which aimed to place China, in 2050, among the leaders of the world's innovative technology processes; at the same time that Russia, under Putin, showed its intention to use the production and export of hydrocarbons as instruments to defend and expand its zone of geopolitical influence.

It is explained, so, that the U.S. "liberal trade" strategy with the initiatives of alliances: North Atlantic with Europe, and "South Pacific" with Southeast Asia, faced the geopolitical strategies of China: the "Transpacific Partnership" (TPP) :

¹⁶ Véase a J.M. Quatrepoint (2014) Choc de Empires. Edit. Gallimard, Paris

¹⁷ Attempt to reopen the existing trade routes between China and the Western world (before the industrial revolution)

or “free trade” treaty between twelve of the countries bordering the Indian and Pacific oceans and the “Regional Comprehensive Economic Partnership” focused on customs agreements. Recognizing, at the domestic level, the need to address the consumption needs of the huge proportion of rural population; optimistic estimates reach 40%¹⁸.

In relation to the competition to attract/secure alliances, the US was able to “rescue” Japan; which, in 2011, had agreed to a monetary arrangement with China to transact in its domestic currencies, bypassing the dollar; The Sino-Japanese disagreements over the Senkaku-Diaoyen Islands.

Let us note, finally, that in the US treaty with Europe facilitates the settlement of European capitals on US soil; which constitutes an incentive to capital trafficking; while China “counters attacks” by offering “credits” with newly created banks with the “BRICS”, with capital contributions from Brazil, Russia, India and South Africa and the so-called Asian Infrastructure Investment Bank (AIIB) with input from Singapore, Kazakhstan, Vietnam, Qatar and South Africa; for the purpose of facilitating china’s use of the mass of dollar-accumulated capital.

It is, then, about the competition of “Financial Imperialisms; which leads to difficulties in the domestic scope; matter that we will discuss below.

¹⁸ (See gpadinger@infobae.com) Some international commentators (Idex Mundi.com/infobae.com) assumed by 2010 that the proportion of rural population was 53% and that government-driven mass relocation plans had fallen that proportion in 2018 to 40%. While other commentators estimated a 45% decline by 2020. In addition, according to the World Bank, the poverty indicator affects 87% of the population (per capita income of \$1.5/d). These calculations indicate, on average, that China’s per capita income (pp) is lower than those of Mexico and Brazil; exceeding estimates for India and South Africa. Of course such indicators are well below averages for industrialized countries in the West.

4. Comedy of errors with the financial weapon:

"...Quelle sorcière va se dresser sur le couchant blanc?"

A. Rimbaud (1873)
Les Illuminations/Phrases (p. 101)

It is very clear that currency can be used as a weapon of domination, as evidenced by history. Let's remember the Spanish hegemony, with its silver currency, until the beginning of the British predominance with its gold currency and its deposit banking in the XIX century; and then the dominance of the US dollar, as fiat currency¹⁹ and credit banking, from 1945 to date, despite the crisis of 2007-2011; characterizing the beginning of the third millennium (d. C) by the "credit crunch" and inflation with subsequent unemployment.

We should then ask ourselves: Which policies or procedures can a contemporary state use to "advantageously" use its currency domestically and internationally?

A first view relates to the exchange rate (ch) or price of the national currency in foreign currencies: *because if this price decreases* (rise in the exchange rate) domestic prices in foreign currencies become more attractive and could increase exports and decrease imports (improvements in the balance of trade) with increases in foreign currency reserves (RIN).

A second vision relates to interest rates (r); because if domestic rates drop, credit could stimulate domestic production and reduce the need for imports.

The combination of the two visions proceeds with the massive intervention of domestic central banks in the domestic exchange market: buying currencies with their own currency. But the success of the maneuver requires domestic credit to boost domestic production. If this did not happen, inflation would simply be boosted, and eventually unemployment²⁰.

When this policy (devaluation of the domestic currency) becomes generalized, there is talk of a situation of "trade war" or "competitive devaluations", with the consequence of sinking global trade; circumstance that benefits no one.

Thus, by 2014, China accumulated dollars of about four billion dollars; that is, it retained 25% of total planet reserves; without the World Trade Organization (WTO) being able to counter it. With the consequence that since these reserves are in U.S. securities, China could sell them to reduce the desire to hold on to dollars; with the possible consequence of a depreciation of the Chinese domestic currency... In other words, with ambivalent results, which can only be foreseen

¹⁹ In three phases:: The dollar "as good as gold" (1933-1977) the dollar "as good as dollar" (1968-1973), and general flotation from 1974.

²⁰ As evidenced in the Venezuelan case, where the hotspots are the inappropriate credit system that today (deposit banking instead of credit banking) and in the self-destruction of export potential, by the policies undertaken in PDVSA and those of Latin American integration after the year 2000.

by carefully examining the composition of the export/import menus. If in them were majority the goods not excessively specialized (where price concurrency is high) the risks of failure are high... and dissuasive... and dissuasive...therefore, through its inhibition, China seems to be managing its reserves wisely... while waiting for success in your trading strategy.

In any case, let's say that *the overall picture of the monetary situation*, can be seen by examining the inter-temporal evolution of the central banks' balance sheet; paying attention, ultimately, to variations in its capital... sustained losses diminish the strength of the domestic currency and its international acceptance... which is vital in relation to geopolitical dominance. Issues that we will discuss in the next chapter.

5. Storms in the International Financial System

*"How could the gift donor experience the delights
of the trader?"*

William Blake (1793/ p. 241)
Visions of Albion's Daughters

The planetary economic-political crises of the end of the XX century and the beginning of the XXI present, in a dramatic way, the interaction between the economic-financial processes and the political tensions in the industrialized countries and in the emerging economies; including a vital component: world oil production and distribution; whose monetary surpluses, placed in London, have allowed England to survive the loss of the political and financial hegemony, or power of the pound sterling, exercised until the outbreak of the First World War; and, in the early decades of the XXI century, resisting the rise of the European Union and the pretension of its currency: the Euro, to compete with the universal use of the US dollar.

Let us note in this regard that England, supported by the assistance it gave to the countries of the Middle East to achieve independence from the Ottoman Empire, obtained the placement of the monetary surpluses of the Middle East in London. This should be considered from the angle of coherence of domestic political decisions with the rationality of economic science (economics) and the circumstantial variants of global exchange. Issues we discussed below.

5.1 Rationality vs Pragmatism

The contemporary theoretical vision, in economics, starts from an unquestionable fact: *the essential information for individual and collective agents* is that someone's income always offsets someone else's expenses, and that debts, sooner or later, must be paid off...and, better early, as the accumulation of interest becomes principal owed.

Hence, contemporary banking should be concerned with the supervision and control of the processes that will allow the debtor to obtain the resources to *cancel the initial commitments*: that is, to make sure that the purpose of the credit is reproductive²¹. Considering that any balance (debtor/creditor) of the ordinary commercial exchange must be compensated with the situation of the capitals (assets/liabilities) of another²²; which points out the importance of the study of the balance sheets of the Central Banks, *responsible for the monetary situation of the Nation* to reduce the risks of incurring in the so-called financial collapses (defaults).

It is therefore appropriate to emphasize, with Mata Mollejas L. (1999)²³ that, in small economies open to trade in goods and capital, speculative activity

²¹ Kasim Asker Hasan (2018)

²² Allais, M. (1981) y J.P. Benassy (1984)

²³ Mata Mollejas, L. (1999)

and financial collapses are often associated with growing fiscal deficits in foreign exchange and sustained balance-of-payments deficits.

Now then, according to what has been expressed, we know:

1^o) That the postponement of the delivery of monetary equivalents to the goods and services exchanged gave rise to two institutions: banking and taxation; that by acting simultaneously, gave origin to the money we call **fiduciary**.

2^o) That, eventually, banking and treasury became **political competitors**, because of the predominance of the money issued by the treasury or public money and that issued by the bank or private money, and.

3^o) That the diversity of periods when closing or concluding payment processes with different horizons (short and long term) with the different monetary modalities, according to the purposes of the expense, gave rise to the uncertainty of the payment, or, **risk of non-payment**, and this led to variations in the productive and distributive processes; which allowed Keynes (1936) to define the economy, in a systemic context, as **casino economy**, and M. Aglietta (1982) to distinguish it **as subject to monetary violence**.

In short, analysts won by the **systemic vision**, *call crisis* to the *generalized or persistent situation of risk of non-payment*; allowing them to affirm that the most dramatic crises come from the withholding of monetary profit from production, by restricting their use in productive investment; or use it as a **speculative investment; with the consequence of reducing consumption**, as it is not fed by a sufficient flow of wages.

What has been said is summarized by saying that the *first conditioning* of crises is constituted by the **asymmetry of risk**; because not canceling long-term credits is more onerous/risky than remunerating equity securities; that the *second conditioning* is constituted by the **asymmetries in the real markets** (production/employment) where small production mismatches lead to large job losses (see L. Mata Mollejas: 2013, p. 16-17 and 2020 p. 25); as wages are often not exclusively related to productivity; and that the *third conditioning* is **banking vulnerability**; because when using fiat currency, credits precede deposits.

5.2 For Economic Efficiency in the Real Sphere

According to the preceding paragraphs, the explanation of contemporary economic dynamics is framed within an analytical framework that must incorporate the consequences of financial speculative activity; which has conditioned the real economic processes since the seventh decade of the XX century; circumstances not included with specificity in the strategic options followed.

That is why contemporary theoretical reasoning makes explicit *the lag between instantaneous adjustments in financial markets and medium-term*

*adjustments in real markets*²⁴; it is admitted that the balances of all the markets are finally cancelled in the public money market; and that the elements of tension appear when reproductive credit is replaced by speculative action; which forces the liquidation of real assets in order to cancel the financial liabilities.

Hence, the seriousness of the crisis is assessed by observing the process of sustained devaluation of the public currency and the exacerbation of risk aversion; mainly because of the conjunctural elements of public indebtedness, which affects the real economy; being able to affirm that, **on inflation there are multiple conditioning factors; disqualifying traditional knowledge (monetary fallacy) that points to the excessive issuance of public currency as a sufficient cause of inflation; with obvious omission of the speculative components, highlighted in contemporary analysis.** In short, traditional vision falls into the error called "composition fallacy", as Mata points out (2020, p. 32).

5.3 Confusion in traditional financial analysis

The point is very serious:

1º) By accepting the hypothesis that any deposit will result in increased demand and circulation of liquidity, discarding, the fact that it is the loans granted that generate the deposits, and

2º) Avoid criteria related to the so-called **Liquidity Trap**: whose central argument highlights is the **opportunity cost of conserving money**, ignoring the possibility of earning yields by acquiring government bonds (sovereign bonds) or any other security (or debt) offered on the stock exchanges.²⁵

In sum, **the Orthodox economic vision, still dominant in the international bureaucracy, located in Washington and Brussels, forgets/disparages, the speculative factor; that internationally and domestically competes with the dynamics of credit to retain public money for the service it provides in the current Exchange (Tobin, J. 1965)²⁶ that decreases with the increase in inflation.**

Let us then point out that, in order to avoid the error and harmful government abuse of using the criterion of limiting the creation of bank money a priori, the contributions of M. Allais (1981) and J.P. Benassy (1984) must be leveraged. Benassy (1984).

²⁴ See Mata Mollejas L. (2006) Pre-Financial Adjustment Theory. Edit. FACES UCV

²⁵ Keynes (1936/1951, pp. 167-168) It should be noted that the money issued by the State or public money only serves to cancel the balances of the other markets, where the most voluminous is that of bank credits and stock market securities, and that they operate on the basis of yields.

²⁶ The analysis of J. Tobin (1965) relative to the investment portfolio, highlights, as opportunity cost of retaining money, the bank passive interest rate; which, evaluated in real terms, decreases with the amount of inflation.

In other terms, it is the vision or credit focus of the currency that allows evaluating the interaction between the real economy and the financial-banking one: international and domestic; because, as we have already said, every balance (debtor/creditor) of someone, must be compensated with the situation of the capitals (assets/liabilities) of others; including that of speculative markets or traded on stock exchanges: local and global (Mata Mollejas 1999).

It should be noted that, in small and open economies, speculation and credit escalation may be associated with the persistence of the fiscal deficit and that the stock market plays a minor role, due to the narrowness of the productive apparatus; while exchange rate variations come from the foreign trade situation.

Hence, the fiscal authorities should be parsimonious in contracting external loans and the central bank should provide timely support to the credit market; distinguishing foreign currency credit for export promotion and allowing the exchange rate to float to avoid falling into the excesses of foreign exchange speculation.

In other terms, the crises of the early XXI century are associated with the consequences of using the operative rules based on conditions that do not exist now, that sustained the currency approach in the first half of the XX century (Old View), so today we incur in fallacies of composition; resulting in the inadequacy of reactive measures taken in fits and starts, such as the so-called quantitative easing to cope with the 2008-2011 crisis...given the persistence of the global depression.

5.4 Discussion on Strategic Dilemmas

By the end of 2011, the global crisis was not under control. The bank insolvency originated in the debt of the families contracted by the private banks, was tried to be solved, in the industrialized countries, by means of the practice of the sweet negligence: assistance from the treasury to the bank without prejudice to independence and without relevant penalties, by providing liquidity at low cost; hoping that consumption and the demand for credit would rise, without observing that the availability of money can encourage speculative activity, leaving the real problem unresolved: the decline in the production of goods and in employment.

Thus, the mismanagement of capital dynamics aggravated the political situation; as the outbreak of successive crises in Latin America, Asia, the United States and Europe was associated with a negative dynamics of work (occupational exclusion) due to the deepening of investment in information technology. *It must be said that the mismanagement of the speculative dynamics of capital*, accompanied crises, according to the relative position of countries in international trade. In this context it is essential to highlight the influence of geopolitics.

It has like this:

- (1) That the use of the dollar as a means of payment for OPEC trade mitigates U.S. domestic pressure (persistent fiscal deficits) that tends to devalue it.
- (2) That Chinese loans to oil-producing countries, payable with petroleum in the future, contribute to the devaluation of domestic currencies,
- (3) That, at European scope, the single currency is far from overcoming the economic differences between the various Member States, and
- (4) That **everywhere the domestic micro-supply is confronted with the dynamics of the world macro demand and over it reigns the influence of Financial Capitalism, preferably for short-term speculation, is on it; constituting the fundamental economic characteristic of the new geopolitical order and its conjunctural variations.**

Let us observe then that, the current situation of the former USSR, preserves the strategy of deterring armed confrontation, as if we were in 1945; forgetting that, commercially, it behaves as a third world economy, dependent in part on its gas-oil exports; accompanying China in confronting the desires of Civil Society for greater internal democracy; while Washington pursues neo-mercantilist policies: politically costly and economically wrong, as the rest of the world is forced to face the sustained devaluation of its domestic currencies... triggering a spiral of new economic and political tensions.

Let us then examine how the institutional monetary instrument: *central banks* should act in the context of financial exuberance, by comparing the experience of the country issuing the international standard currency with that of countries, and that of countries with international trade surpluses; particularly those in the Middle East and its financial refuge: the United Kingdom.

To do this, the following questions must be answered:

- i) How do monetary practices in different countries relate to theoretical views of money?
- ii) What are the theoretical differences?
- iii) How can differences in policies be observed, if there were?

To answer the *first question*, let us remember that, up to the middle of the XX century, money was conceived in practice as an instrument provided by the State; whose specific utility was to facilitate exchanges of useful goods when consumed; reducing the costs of matching the different demands and offers of useful goods and services in their own right; and, serve as a store of value, as long as it is not used in the exchange of goods, or use as a circulating asset. This was equivalent to considering public money as an essentially neutral instrument.

Inferring that the practice, or convenient policy, to concentrate on regulating the money supply; as the responsibility of the Central Bank and of a treasury that balanced its tax revenues with its expenditures.

Such a vision, Orthodox/traditional or "Old View"²⁷, persisted in academic circles despite Keynes' (1936) observed that, a restricted supply of money *depressed the productive process*. Thus, the idea of *monetary neutrality did not seem reasonable*.

The opposite idea to monetary neutrality, is that the key variable for maintaining the harmonious march between production and money supply does not lie in the control of an exogenous supply, but is found in meeting the monetary demand of producers and consumers or endogenous demand theory or "New View"; responding to the *second question*, with arguments anticipated by Wicksell (1898), Bernacer (1922) and Keynes (1936) in addition to those wielded by contemporary authors such as: Allais (1981) and Benassy (1984).

To answer the third question, it is worth highlighting with:

Garcia, Mata and Nell (2008, p.149) that aggregate demand is *represented, but not determined, by the quantity of money in circulation*; so the direction of causality is reversed; going from nominal (cash/expected) income to money supply, not the other way around.

Nor can it be forgotten that, at the end of the Second World War, significant changes occurred in relation to the need to maintain reserves of the currencies accepted as a means of international payment (in essence, the US dollar); Thus, at the national or domestic level, the movement of the interest rate movement is associated with the (opposed to) that of the exchange rate.

Hence, the central banks, of economies whose currency is not accepted for international payments, even if the country participates in the free transit of capital, must monitor the progress of the exchange rate; because the reduced model of the Financial Pre-adjustment (Mata Mollejas, L. 2006) shows that public policy for financial management has a single degree of freedom²⁸. At the same time, as the international reserve currency issuing economy must take care to keep the interest rate low. Forcing the daily administrative practice of the various countries to follow a path of *trial-error*, which facilitates speculation.

This functional characteristic obliges countries whose currency is not used for international payments to monitor the amount of international reserves (IR) and their relationship with the balance and evolution of public indebtedness in foreign currency (BTT) to reduce speculative pressures on the exchange rate (ch) and avoid raising the interest rate (r) as a maneuver to neutralize capital flight and its negative effect on the demand for credit.

Therefore, the question arises:

²⁷Sustained by Friedman in 1956, among modern authors.

²⁸ Indeed, the reduced model is expressed as: $\frac{1}{r} (V^d - V^s) + ch (\$^d - \$^s) = 0$, at the time of decision-making (t tending to 0)

How to deal with the dilemma of the negative effects of floating exchange rates (correlated with inflation) vs. making credit money more expensive, with the depressive consequence on production and employment?

In other words,

Is it possible to replace the *trial-error procedure*, in political decisions concerning the financial world?

Note that if one disaggregates the equation of the reduced model (Mata M. L. 2007: 165) distinguishing between securities, foreign exchange credits, we obtain the expression:

$$1/q (V^d - V^s) + (1 + 1/r)(CR^d - CR^s) + ch (\$^d - \$^s) = 0$$

It comprises three financial markets and risk options: the stock market, the banking credit market and the foreign exchange market; the basic financial benchmarks are linked: speculation, credit and risk aversion; relative prices being fundamental: the stock market yield (q), the interest rate and the exchange rate²⁹.

From the above it follows that, during the normal development of economies (according to Mata, 2007: 165) the differences (margins) between those prices must allow for the cancellation of credits.

If this does not happen, *situations of liquidity* are caused; banking becomes insolvent, by blackberries, and such an atmosphere makes it attractive to take refuge after currency leakage. Abnormal withdrawal of funds and excess demand for foreign exchange can be observed as pre-warning/detonators of crises.

Let's also say that, in the internationally accepted currency issuing economy, money issued by your central bank (BMA) and credit (CR) always finds demand. Thus, their monetary-fiscal authorities can monitor the progress of interest rates and manipulate them according to domestic requirements... taking care of the consequences/repercussions on foreign economies and their holding of foreign exchange reserves... that are unnecessary to them.

Hence, the structures of central bank balance sheets provide the essential data *for our study* and for inferring, from monetary practices, the economic consequences and political tensions derived from them. In this regard we will use a simple classification as presented in the Table No. 1 to pour the information of the prototype cases under study: United States, England, China, Russia, European Union, Middle East, Latin America and Venezuela.

Table No. 1

²⁹ Here it should be remembered that an empirical validation of the theory of financial pre-adjustment, appears in the essay of Mata Mollejas, L. and J. Niño Días, called: the Theory of Financial Pre-adjustment: Some empirical indicators. Venezuelan Journal of Conjuncture Analysis Vol. VII No. 2; pp. 127-147

Prototype Balance Sheet of a Central Bank

Asset	Liability
Gross International Reserves (GIR)	Debts of GIR / IMF assistance
Gold and Gold Certificates	Monetary Base Issued (MBI)
Foreign Currency Assets	In the Hands of the Public (MBP)
Other Reserve Assets	In the Financial System (MBFS)
Internal Credits/Domestic (DIC)	Own Debt Securities (DS)
To the Government (GC)	Government Deposits (GD)
To the Financial System (FSC)	Other Liabilities
Assistance Received in Foreign Currency	Capital (K)
Other assets	
Total Assets	Total Liabilities and Capital

Source: Garcia, Mata and Nell (2008)

It should be noted, following Garcia, Mata, Nell (2008) that the accounting rules of central banking entail:

- 1^o) That changes in assets, in any area, (increase/decrease) imply changes in the same direction of the monetary base of the authorities (BMA),
- 2^o) That variations in liabilities or various extractions through various transactions affect the holding of the current (BMP) and the volume of capital (K) and
- 3^o) That Table No. 2 below shows the evolution of average (global) structures for the final two decades of the XX century.

Table No. 2
EVOLUTION OF THE STRUCTURE OF CENTRAL BANKS
AT THE END OF THE XX CENTURY

		Between 1985-90	After 1990	Maneuver Margin
Situation A	ASSET			
	Gold and Foreign Exchange	15%	5%	10%
	Sovereign Debt / Credit, Banking	85% (Bank 50%)	95% (Gov 60%)	Gov +/- 20%
	LIABILITIES			
	Monetary Base	98%	90%	8%
Situation B	Debt and Equity Title	2%	10% (Title 9%)	Title +/- 8%
	ASSET			
	Gold and Foreign Exchange	65%	25%	40%
	Sovereign Debt / Credit, Banking	35% (Gov 30%)	45% (Gov 20%)	Gov +/- 15%
	Debt Countries A		30%	
Situation C	LIABILITIES			
	Monetary Base	80%	60%	
	Debt and Equity Title	20% (Cap 20%)	40% (Cap 20%)	Title +/- 20%
	ASSET			
	Gold and Foreign Exchange	99%	95%	4%
Situation D	Gov. Credit / Bank Credit	1%	5%	Bank Credit +/- 4%
	LIABILITIES			
	Monetary Base	30%	55%	15%
	Def. Dep., Gov. Dep., Debt and Equity Titles	70% (Cap 5%)	70% (Cap 5%)	+/- Title +/- 50%

Source: L. Mata Mollejas (2003, p. 127 and 2016, p. 56)

It is clear from this table that the sustained growth of medium-term economies is associated with:

- 1º) The issuance of *private money* (credit) for reproductive investment monitored by central banks to minimize exchange rate tensions, and
- 2º) The issuance of *public money*, dependent on tax activity, to assist consumption.

5.5 Recent Evolution

The dominant practice in the United States notes that the Treasury (Fisco) issues bonds and the Federal Reserve paper currency; while private banking creates obligations (credits) to be cancelled by future generations. So in Washington play to exchange assets, putting pressure on the dollar; warning that China's huge dollar reserves make it a "forced" and "unwilling" ally; because it cannot play on the devaluation of the dollar, on pain of jeopardizing the assets of its central bank... and its currency.

For its part, the European Union, led by Germany, according to historical experience, disagrees with Washington's financial game, trying to stabilize the euro exchange rate through fiscal balance; pushing against the "Club Med" or PIGS, whose "developmentalist" motives and fiscal deficits end up creating devaluation tensions against the euro.

Let's point out here, the double game of London, by not being part of the Euro, to take advantage of the monetary surpluses of the Middle East and

follow its own rules. That is why Britain is still called "Perfidious Albion"... but now subjected to Macbeth's trauma "that our mask faces turn to hide the heart"³⁰. Let us then evaluate the global interaction in the next paragraph.

³⁰ William Shakespeare (1606): *Macbeth*, Act II, Scene II

6. Contrast of Experiences in the Debut of the Third Millennium

*"A vendre ce que... le temps ni la science
n'ont pas à reconnaître"*

A. Rimbaud (1873/1998)

Les Illuminations/solde (p. 154)

The balance sheets of the first two decades of the XXI century for the economies of The North Atlantic Washington-London axis (that had abandoned the direct metallic backing of fiat currency: by agreeing to the Breton Woods or Gold Standard system, which concludes in 1972, replacing it with the "dollar as good as gold" or "dollar as good as dollar" arrangement) show negligible international reserves for the United States and minimal for England (15% of assets); while the European Union enters the new century with an average of 34% of total assets; to descend to 8%; while emerging countries accumulate an average of 70% and those in the Middle East more than 90%.

Table No. 3
Comparative Estimation of Balance Sheets 2006-2018

	United States		United Kingdom		Saudi Arabia		China		Russia		Venezuela		European Union	
	2006	2018	2006	2018	2006	2018	2006	2018	2006	2018	2006	2018	2006	2018
Asset														
International Reserves		2		20		13		92		98		56		60
Gold and Gold Certificates	1									0,5		15		17
Foreign Currency			15	13	92	98	55	59	93,5	63	60	2	16	7,2
Other Reserve Assets	1		5				1	1		12	1		3	
Domestic Credit		93		97		69		70		31		40		3,5
To the Government	92	95	22	20			4	20	3,5	12		6	4	8
To the Domestic Financial System	1	2	47	50			27	20		0,5			45	64
Other assets		5		3		11		17		8		2	13	
Total Assets	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Liabilities														
International reserves commitments				19		12		1		4		21		29
Monetary Base		95		84		76		75		24		25		66
In the Hands of the Public	92	73	49	51	18	20	39	30	36	26	14	1	55	60
In the Financial System	3	11	27	24	6	5	27	56	2	37	20		17	6
Own Debt Securities				1		3		14		14		27		2
Government Deposits			10	1	5	32	30	14		58	20	15	2	7
Other Liabilities	1	2	49	3	4,3	44	45	5		5	3	65	19	
Capital	4	4	27	0,7					4	8				2
Total Liabilities and Capital	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Note also (Table No. 3) that the largest asset of the most industrialized countries is that of support for credit activity (Situation A) and that its liability, in terms of monetary issuance, also reaches the highest average.

By contrast, countries with incipient industrialization minimally support the issuance of credit; being the largest component of liabilities related to government operations (government and central bank deposits and securities) to "slow down" excesses of the monetary base.

In a few words, the balance sheets of the central banks of the latter countries are formed according to the prototypes (B) and (C).

So far, it should be noted that, among the countries in the sample, the ones that support credit the most, according to the balance sheets of the Central Banks for 2018, as experience closer to the prosecution of the paradigm that associates development with industrialization are China and the United Arab Emirates. Indeed, according to Asker Hasan (2020)³¹ the United Arab Emirates has a macro-financial plan, which makes references to the main security holders; all this within a medium-term development strategy (the current one covers the period 2018-2020) and a process of conjunctural supervision, guided by the IMF's macro-prudential financial criteria and those related to the standards known as Basel II. Concluding that the UAE, in general, is following an orthodox and conservative strategy, as is China with its long-term plan to 2050.

Hence, from the contrast of behaviors we can infer, as a *convenient policy* to move towards the improvement of the circumstances of the real economy, to take advantage of contemporary theoretical criteria or *New View*; allowing domestic banking to carry out operations with the international currency, taking care of the fit of the bank balance sheet; that is, establishing *pari passu*, with the granting of credits, the creation of reserves that would guard at their own risk, without handing them over to the central bank... unless it undertook to serve as a guarantor of last resort in foreign exchange... risk that central banks should not assume.

Of course, the pragmatic requirement to avoid defaults is that *private* banks to *supervise and control the administration of the resources lent*. That is, to follow the rules of what we have called Third Generation Banking (See: Mata-Asker Hasan: 2018).

Here it is worth noting, in relation to the countries of the Middle East, that persisting in the placement of their monetary surpluses in foreign exchange, in the transnational banking of the West simply complicates the defense of their geopolitical interests... and that London, by encouraging such conduct, unashamedly admits the epithet of: Perfidious Albion.

³¹ See Kasim Asker Hasan (2020: "The Middle East in the International Monetary Context") Postgraduate in Research and Development Management. UCV

7. Summary and Conclusions

"The coast of Albion is mute and decomposed... and the American prairies are fading"

William Blake
Songs of Freedom (1792)

Emphasizing what was stated in the Introduction, the surprises of politicians in the face of dramatic changes in the economy and the frustrations that this has brought to populations in all countries, we can ask ourselves with R. Passet (2011) how the representations of the world that humanity has built, from the magical-religious angle of the Paleolithic era, to the thermodynamic conception, with its reconstructions, so far undefined, can help us consistently, from the logical vision to find the corrective actions?

Let us remember Platón (427-347 b.C.) and his depiction of the cosmos as a "car with two horses"; *the world of needs and desires* for physical-instinctive satisfaction, and the *act reasonably*, by fine-tuning the appreciation/understanding of the (sensitive) information provided by the senses³².

In tight synthesis, we can say that to face the threats of misery characteristic of the pre-historical era and recover "paradise lost"³³ Moses invented to circumvent autocratic and personal authoritarianism, law enforcement. Jesús, foreseeing its eventual obsolescence, conditioned its fulfillment to loving care, according to the parable of the virgins, who, receiving lights and oils, should administer them without carelessness and waste, as the foolish virgins would do (Matthew, n. 25). Marx blamed the profit motive for economic problems, "aggiornando" the "hunger for gold", which killed biological life, according to the Myth of Midas (740-696 b.C.). Subsequently, Freud (1917) synthesizing Ovid (43-17 b.C.) pointed out that loving care should pay attention to the lubricious dreams... and, finally, Einstein sentenced, that everything said before was relative. This would lead to the generalization of the *complex vision* and the use of the "refined" methods of appreciation/understanding mentioned above and to the justification of our hypothesis (see introduction) that the dynamics of the political and economic subsystems interact as reciprocal catalysts as uncertainty increases, when the fundamental referents of each subsystem vary differentially with the passage of time.

³² Tuning recurs: 1) To logically linked causes, where each of them *always produces* the same effects; called a linear mechanical deterministic model; (2) To causes logically linked but with "probabilistic" results or determined by statistical relationships and 3) To causes logically linked with variable (indeterminate) results but capable of following predictable behaviors when *imagining* actions on interdependent key elements, with two modalities: (a) Confrontation, or dialectical solution and (b) *co-existence solution by voluntary agreement or harmonious solution*.

³³ According to the Bible, or its equivalent, the Golden Age of Greek mythology.

Let us highlight here that countries that advance initiatives with broad time horizons (year 2050) as China does, relying on the plural exchange of ideas (relative political openness³⁴) and in the potential of its domestic market provided by its important rural population... allow for the continuity of Washington's geopolitical control, in the short and medium term, without significant efforts, based on the status of *be the offerer international monetary pattern*... and without having to advance, not even one centimeter, in the domestic political order... which we see as their "Achilles heel" in a long-term context.

Finally, countries of incipient industrialization, such as the Latin American countries, due to their delay in understanding the financial situation of the New View, support governments that take "emergency measures" copying programs and plans (Hirsman 1964) whereby, they must face new and serious problems (spirals of frustration), considering that the delays (average lapses of five years) to change the governments in office *under the presidentialist regime*.

Thus, political solutions such as adopting *parliamentary regime*, becomes a pre-requirement to address economic problems (galloping stagflation) to have access to the solutions proposed by the adoption of the *Third Generation Finance*³⁵.

³⁴ Acceptance of Deng Xiaoping's ideas regarding multi-party cooperation, according to Xi Jinping (2014).

³⁵ See L. Mata Mollejas (2020) Parliamentary Elections vs Crisis.

APPENDIX A

Stumbling in China

The year 2015 can be identified as an important turning point for China in relation to its external accounts; since then, China has exported more capital than it imports.

The gigantic foreign exchange reserves of around US\$4 billion, which by then had grown, melted by one-fifth in a year. This was due, among other things, to drastic wage increases in the country. From 2005 to 2015, wages grew by an average of 14.6% per year. Along with the yuan's slight appreciation of the US dollar, Chinese wages in US dollars have quadrupled; this results in considerable prosperity for workers, with the cost of reducing the competitiveness of Chinese companies.

We must point out that, for many years, capital flight was not a problem for the Chinese government. From 1994 to 2014, the People's Republic had current account surpluses and private foreign capital flowed into the country. The central bank bought foreign currencies against the yuan and amassed foreign exchange reserves. Reserves grew steadily and reached an all-time high in 2014 at the aforementioned \$4,000 billion.

These resources supported the Chinese government's efforts to strengthen the role of its own national currency in international financial markets and try to cope with the dollar in the medium term... without the risk of having wildly fluctuating exchange rates; as this could be seen as a sign of economic instability and weakness in China, in addition to damaging the credibility of President Xi's economic policy.

Therefore, It should come as no surprise how much China's current account surpluses have shrunk. In 2015, the peak of US\$304 billion corresponded to 2.8% of economic output, below the record highs recorded in 2007 and 2008, when China's current account surplus was US\$353 billion and US\$420 billion, respectively.

Thus, the preliminary figures for 2018: with a surplus of 0.3% of GDP: the Chinese economy, unlike the German economy, is achieving moderate increases in trade in goods and services. Hence, while this reduces criticism of China's surpluses, it makes it clear that large capital exports would only be possible at the expense of its own foreign exchange reserves; since exports of private or even government capital on a significant scale would lead to current account deficits. Therefore, the Chinese government can only finance the Silk Road and Strip Revival Initiative if it allows only a small amount of private capital export.

Let us emphasize that for a surprisingly long time, Beijing managed to maintain the exchange rate and was able to gradually liberalize the country's capital movements. But now, the communist party's own citizens have been thwarting the Communist Party's plans. Before you buy another apartment in China, you

want to invest abroad. Profitable investment opportunities in the country itself are scarce, as real estate is overrated. The only thing left for the owners of the capital is the illegal export of capital.

In 2015, it was noticed that there was a gap of around \$500 billion between transfers made by Chinese banks for imports and import statistics. From this contrast, it turned out that \$2.2 billion flowed abroad, while customs only recorded imports valued at \$1.7 billion. Thus, since 2015 the Chinese government has viewed private equity exports as a threat. In twenty months, from June 2014 to February 2016, foreign exchange reserves sank drastically, from \$4 billion to \$3.2 billion.

As a result, capital exports have been limited to \$50,000 per person per year since 2015 and the central bank has tightened restrictions on capital movement to stabilize the situation. The challenges for the central bank have changed dramatically.

Let us emphasize that, if Chinese investors are reducing their investments in China in favor of overseas investments, this could be the harbinger of a financial crisis; since when residents want to keep their capital safe abroad, it must be assumed that they do not have much confidence in their domestic economy.

Let's conclude by saying that, the possible instability of the Chinese financial system, of course, not only worries financial analysts. Politicians should know that, a crisis in China would lead to new tensions in world harmony.

APPENDIX B

Latin America Perennial coloniality?

*"... You'll not be pardoned for these
hours; these hours that erode away our
days; these days that gnaw away our
years"*

Luis de Góngora

In the dissimilar evolution of the world destinies of Latin America and Anglo-Saxon America, from the circumstance of European colonies, had an influence:

- a) The socio-political order, with practices of local self-government (contrary to the imposed hierarchies) precursor of the modern "open societies" used in the British colonies of North America, in contrast to the authoritarian and religious institutions, with a vision of the XV and XVI centuries, that ruled in Latin America.
- b) The practice that the dissemination of knowledge was driven from school, as the first civic responsibility in the North; whereas, in the south, such dissemination remained within the religious institutionality; and
- c) Latin America's almost absolute dependence on foreign manufactured goods; including the absence of its *own ships* for trade³⁶ to serve a population scattered over a huge territory, given the *monopoly on manufacturing production and trade* that the Spanish crown imposed on its colonies during the XVI and XVII centuries and which ultimately favoured the smuggling trade from England during the XVIII century.

The said contrasts with the productive manufacturing experience for domestic consumption accumulated by the thirteen North American colonies in the absence of precious mineral resources to support the "mercantilist vision" and the absence of limits to free trade among them³⁷, to meet the needs associated with an explosive population growth³⁸ in a more homogeneous geographical space instead of the more abrupt Latin American territory.

Thus, Latin America could only export mining and agricultural goods for luxury consumption; with precarious added value (slave-feudal production) subjected to

³⁶ This is true for the Atlantic trade, as Cooke, R. and L. Sánchez (1999) argue that in the Pacific there were small shipyards in the XVI century for the maintenance of about 40 ships. The main one, located in Panama, called **El Realejo**, built galleons until 1590 for the trade of the Philippines. Nautical construction would eventually be shifted to Manila as the cheapest labor costs result. See: Aut. Cits. "The Maritime Societies of the Pre-Columbian Period, Internal Networks and External Contact of Istmo Panameño. Tropical Research Institute - Balboa-Panama

³⁷ The English stimulated the production of iron in North America for the manufacture of work tools and shipbuilding (with the exploitation of wood, which was scarce in the British Isles) as well as for carriage roads and bridges, in contrast to the Spanish, who limited themselves to the use of horseshoe paths, simple trails "opened" by pack animals.

³⁸ The population of the thirteen colonies grew from 250,000 in 1700 to over 5 million in 1815 by free immigration of Europeans, see The Penguin Atlas of Modern History (1972:84).

irritating taxes on such production (alcabala, etc.) to amortize the expenses of the colonial administration. And although the activity (gold-silver miner)³⁹ brought noticeable surpluses, a high percentage was issued to Spain and through its trade with England, the Netherlands and France, to the rest of Europe. Hence, investment in physical infrastructure was reduced: only that required for the protection of the ports and the scarce artisanal production. Consequently:

- 1°) The weight of the productive fragility made that, after the political independence, achieved at the beginning of the XIX century, the Latin American society continued within a commercial-financial colonialism, by accepting "*Treaties of Friendship, Commerce and Navigation*", from 1825, driven, throughout the XIX century, by England, through the banking tutelage, to replace the arms trade established in the war period and the preceding smuggling⁴⁰ and, seconded by the American diplomacy to ensure the use of maritime transport provided by the American fleet that supplied wheat to the Caribbean area and the North of South America⁴¹.

From the economic base described above, from the beginning of the XX century, the United States will begin to supplant England as the "metropolitan economic" center of Latin America; without common cultural traits: *the civis hispanoamericanus* could build a political counterweight. In short, in the long run, "The United States would be the heirs to the lucrative business of an Independence," as Lola Vetencourt calls it⁴² And

- 2°) Since the South American countries were located within the area of political economic influence of the United States at the end of the World War, their economic development closely followed the general economic trend of the United States, being the main importer of subcontinent's primary exports. Hence, by 1960, South America's average per capita national income was 41% of that of the industrialized countries in North America and Europe; whereas by 2015 they accounted for 38%. That is, a reduction of 3%, while the Asia-Oceania and Africa averages rose by 8% and 13% respectively.

Hence, the challenges to be overcome are:

- 1- Change authoritarian/populist political regimes that see redistribution of wealth as the solution to poverty;

³⁹ Estimated volumes of silver exports are: XVI century: 17 thousand TM; XVII century: between 12mil and 1 thousand TM; I'm still XVIII: 21 thousand TM. Portuguese Remittances from Asia reached 6500 MT in the XVI century. Mining exports represent + 95% of the total and among the agricultural exports 40% in tobacco.

⁴⁰ Smuggling and the **corso** policy as an authorization to fight enemy ships and share the benefits derived from boarding replaced during the war period the collection of tariffs. Latin American rebels will use these practices with the ships of the countries competing with the regular Spanish trade. On average, the collection for the rebels was 12.5% of the loot.

⁴¹ It should be noted that, the inclination of the provenances towards trade with England is based on the disgust of the liberators towards France, since that country is part of the "Holy Alliance" which aimed to return to Spain its colonial empire. England was not part of that project, so the Minister of Foreign Affairs Canning said in October 1826 that politics against the "Holy Alliance" allowed him to slip between the new republics: We slip in between and we link once more America with Europe". See H. Rheinheyner (1986:26) TOPO Todtmann. Editorial Caracas.

⁴² Aut. Cit. (1981) "The British Empire in the Venezuelan Economy" (1830-1876). Edit. UCV, Caracas.

2°) To reduce imbalances in foreign trade as land transport infrastructure has not yet been built to facilitate intra-regional trade for the production of industrial and agricultural goods; this has also influenced on low reproductive investment, including in scientific-technological field.

3°) To the political tensions that have shaken the subcontinent in the last 15 years; so it is not surprising how high risk and interest rate premiums governments pay for foreign exchange credits 10.5% on average; and the increasing deterioration of exchange rates; without political circumstances, fiscal and wage regimes, stimulate the growth of exports of manufactured goods... to solve, democratically, the problem of poverty.

In synthesis, the South American states have remained in the relative position of "dependent countries" in the international hierarchy, due to the great weaknesses they present in the economic sphere from the year 2000, they remedy those found in history books since the XIX century.

APPENDIX C

Western Europe: the weak entente

"Weak power is power which lacks the tools necessary for it to act in its sphere of authority. Limited power is power whose sphere of authority is limited. Power must be limited, but it must not be weak."

T. Padoa Schioppa. 2009

By 1900, according to J.M. Roberts (2009 Volume III, p. 242)⁴³ the Western peoples of Europe and the people who with such ancestry lived outside that continent, dominated the world; and thus, for the first time, a particular civilization was imposed as a leader throughout the planet, thanks to the growth in wealth and population and the appropriation of goods and territories in other parts of the world, during the previous three centuries.

But when focusing on the political-economic dynamics in Western Europe, between the end of the XIX century and the Second World War it should be noted that the most significant changes are due to the booms of nationalist movements; combined with demands by workers for greater participation in economic surpluses and in political decisions; elements that were synthesized in the formation of national states, that replaced the multi-ethnic empires, incessantly fighting each other for territories supplying raw materials and markets for industrial goods... which required new monetary rules (Genoa 1922) based on the US dollar and then the creation of the Euro.

The economic process under the euro and without England was considered favourable, in principle, to all signatories, by reducing the single interest rate; but this also involved free mobilization of capital in search of the best profitability.

In the period 2002-2007, differences in the economic base of different countries were noted. Those with less industrial capacity to export to neighbors saw grow their trade deficits; as it happened in Spain, Italy, Portugal and Greece (the MED Club) forcing the respective treasuries to engage in conjunctural strategies to try to correct the misadventures of the real economy, bearing in mind, as a desirable limit, the restriction of not exceeding 60% of GDP of public debt; this is to *force them to follow a pro-cyclical policy*. Thus, the indebtedness in relation to the product grew randomly according to the countries.

Therefore,

- 1) Its fiscal actions are anarchic, and the budgetary constraints on deficit spending that Germany wants to induce are met with resistance; while at the same time different wage policies hinder desirable coordination... making for fragile banking systems in the MED Club countries.

⁴³ Aut. Cit., Universal History, RBA Edipresse, S.L.; Spain

- 2) Its international policy actions are incorporated into the NATO; that is, to the interests of the United States, which is sometimes perceived as an imposition that stimulates internal political dissensions in some States, based on cultural inequalities, and
- 3) *London's geo-political tropism* towards Washington is stirring up geo-political tensions in the E.U.

Let's say then; as a conclusive synthesis, that the depressive world economic situation diminishes the potential for autonomy and explains the political surprises in national spaces... and the disappointments about the achievement of the common flags initially wielded: free movement of labor force and investments; which has allowed to magnify the challenges to be overcome by the central euros.

APPENDIX D

New Russia and the Ghost of Lenin

*... rescue Russia from the Chaos of 1990...
It does not mean the end of the market, but the
rescue of power... Military.*

D. Priestland (2012:243)

As a result of the Yalta-Potsdam Agreements (1944-45) the USSR was able to impose its political ideology on the countries of Eastern Europe at the end of The Second World War; the "People's Democracies", which emerged from the dismemberment of the Austro-Hungarian and Ottoman Empires, were reconstituted as "People's Democracies"; in the face of which the United States and the "defensive" North Atlantic Agreements (NATO) lead to the political-economic confrontations known as the "Cold War" (1947-1989).

In 1985, the Soviet premier: Gorbachev decides to accept the United States' proposals for military and political détente, pending the completion of economic and political reforms in the USSR; whose failure, together with the military disaster in Afghanistan (1988) discredited the prevailing communist regime and facilitated the political implosion of the USSR in December 1991.

The supplanting of the economic regime *centralized economy* by the economy *decentralized*, although the authoritarian practices are preserved, under the successive leadership of Medvedev and Putin, maintains the New Russian Federation as a strong contender in the race for planetary hegemony against the United States, its European allies and the Chinese neo-capitalist competitor, supported by the investments of the Western transnational companies.

Let us point out that, from the geopolitical angle, Russia practices *pipeline diplomacy* as the world's leading exporter of natural gas, providing one-third of imports from the European Union; which includes specific cooperation policies with Germany, which avoid dealing with tensions in some countries, such as Ukraine.

Despite the good results in foreign trade, the indicators, in the last two decades, show a depressive situation; noting that the perseverance in deficit fiscal practices and the growing fiscal indebtedness has had an impact on the devaluation of its monetary sign...for which reason they have not had an impact on the substantive improvement in the well-being of the population...a sufficient cause of internal political tensions.

From there V. Putin's initial popularity; 80%, is threatened, and the initial success of centralism or "zarist" ambitions deteriorates... Thus, the most pessimistic believe in the ghosts of the Bolshevik revolution⁴⁴; that in 2017 commemorated its first centenary.

⁴⁴ It is convenient remember that, Putin attributes the root of the disputes between Russia, Ukraine, Georgia and Belarus to the organization of the USSR on the basis of "Ethnic Republics" with aspirations of self-determination (a principle admitted by Lenin). This was the basis for the Treaty of Brest-Litovsk in 1917, which was to be the beginning

APPENDIX E

The Incognitos of "Arab Street"

*"I met a traveler from an Antique land.
Who said –two vast and trunk less legs of store
Stand in the desert...
And on the pedestal, these Works appear:
My name is Ozymandias, King of King,
... Nothing beside remains"*

Percy B. Shelley (1817)
The Revolt of Islam

Under the influence of the Islamic world (632-1517 a.C), commercial bases for goods and people (slaves) spread throughout the Middle East and North Africa, while the territories south of the Sahara desert remained outside external control and absent from the technical development of the Western world until the XIX century.

In 1870 the French advanced from Senegal and the English from Nigeria. In 1855 at the Berlin conference an arbitrarily conceived redistribution of the areas to be dominated took place; Therefore, at the end of the Second World War, the UN agreed to dismantle the residues of the old imperialism, creating new States.

This is why Africa, in its entirety, **is the continent of open conflicts and the struggle for power within the various States**; therefore, weakens them economically in front of the world, despite their natural wealth, and, in the interior, because of the social conflicts born of extreme inequalities and ancestral religious clashes: Christianity in black Africa vs. "animism" or tribal beliefs; the divisions of Islam in the North and in the desert spaces, whose traditional nomadism allows them to attack civilian (local and foreign) and military targets.

These elements lead to heavy migrations of displaced persons and refugees; with the Gulf of Guinea, the Horn of Africa, Mali, Sudan and the Great Lakes area being the hotspots of conflict.

Thus, in North Africa, the political-military struggles of the Middle East are projected in the face of a cornered Israel; It is therefore almost "natural" for States to become authoritarian and militaristic, weakening the few democratic experiences.. Hence, the absence in the Middle East of what we would call the predominance of Lay Rule of Law in the Western way, in pursuit of individual freedom, represents one of the great political weaknesses, complicated by religious conflicts.

of the separation of Ukraine and the return of the western border to that which existed before the Great Ones: Peter (Pedro) and Catherine (Catalina).

This distinction is important, because the rapprochement with the US is not fully supported by the population, due to Washington's close alliance with Israel. It should also be noted that the Maghreb and the Arabian Peninsula have little contact with sub-Saharan Africa; that because of China's need for raw materials, it has become an alternative pole of attraction (import-investor), even taking precedence over relations with the former imperial metropolises.

It should be noted that: Thus, an examination of economic behaviors points out how the deterioration of oil prices, originating in the quasi-self-sufficiency of North American oil, it has broken the economic structures and results in the last decade in the countries of the Middle East and.

That that the south of the continent after independence, between 1948-1991, South Africa lived a regime of accentuation of racial segregation; where the majority African population did not have any economic or political rights before the minority of European origin. Hence, excluded from the British Commonwealth in 1961 and subjected to a UN embargo in 1977, it was considered a "pariah" State; despite the fact that the United States considered it among its allies against the USSR.

The rise to power of Nelson Mandela (1994) and the exploitation of the immense natural wealth have allowed that its GDP to represent 50% of that of Sub-Saharan Africa. This is why South Africa, a State jealous of its independence, has been trying, since 1991, to protect the "non-intervention" of foreign powers on the African continent; despite its economic understandings with China.

Finally, we note that it is not easy to accept that South Africa appears among the prominent "emerging" countries, since unemployment is traditionally high; the trade deficit balance, its economic growth is moderate... while its debt in dollars is accelerating.

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