GLOBALIZATION AND COMPETITION

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In this book with this title, I propose a new theory – structuralist development macroeconomics – and its corresponding strategy: the new developmentalism

This week my book, "Globalization and Competition", shall be available in bookstores. Its subtitle completes the books content: "Why some emerging countries succeed while others fall behind". It is the synthesis of my work of the last 10 years aiming at explaining economic development in a world in which countries arduously compete at the economic level for higher growth rates. It is a book by a Keynesian and structuralist economist, because my view of economics was formed in the Latin American school of thought originally conceived by Raul Prebisch and Celso Furtado after the World War II. In the first part of the book, I discuss the global economy in which we are living today and its corresponding strategy: the new developmentism. In the second part, I try to develop a structuralist development macroeconomics that should be appropriate to our times.

The book starts from the idea that competition made Nation-states more interdependent but also more strategic. Successful countries are, therefore, those that adopt the strategy that I call *new developmentism*. National developmentism was successful in promoting industrialization and in transforming them in middle-income countries between 1930 and 1980. The foreign debt crisis of the 1980s and the new neoliberal ideological hegemony, however, led many countries to adopt conventional orthodoxy or the Washington Consensus, which caused the balance-of-payment crises and increased inequality instead of promoting growth. However, after the repeated financial crises of the 1990s, and given the success of several Asian countries, the new developmentism is emerging in Latin America, and I compare it with the old national-developmentism and with conventional orthodoxy.

In the second part, I discuss the *structuralist development macroeconomics*. The major obstacles to development are on the demand side. Therefore, the economic policy must ensure that wages grow with productivity (which is not warranted, given the unlimited supply of labor) and, as for foreign markets, that the exchange rate is competitive (not overvalued). However, developing countries present a structural tendency to exchange rate overvaluation which, if not neutralized, will be a major obstacle to the diversification and growth of national economy.

The two structural causes behind this tendency are the Dutch disease and higher profit and interest rates that attract foreign capital. These causes are inflated by the mistaken policy of growth with foreign savings (current account deficits), by the adoption of high interest rates, of an exchange rate anchor policy to fight inflation, and of the "exchange rate populism": to let the exchange rate appreciate in order to artificially increase wages. Contrary to general belief, the policy of growth with foreign savings does not increase investment nor promotes growth, but causes instead an artificial increase in actual wages and in consumption, the substitution of foreign for domestic savings, growing indebtedness, financial fragility, and, eventually, a balance-of-payment crisis.

The new developmentism is therefore based on growth with domestic savings, wages that grow with productivity, fiscal responsibility, moderate interest rates, and a competitive exchange rate. These are viable policies if there is a national determination rather than submission to our competitors abroad.