COMMERCIAL AND FINANCIAL GLOBALIZATION

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The participation of developing countries as a whole in world exports rose from 20 percent in 1970 to 43 percent in 2005, and their participation in the global product in purchasing power parity terms, which corresponded to 80 percent at the end of the eighteenth century, thanks mostly to China and India, fell to 20 percent in 1950, as a consequence of the imperialism to which those two countries were subjected; however, since the early 1980s, it has risen again, and it already, by 2005, represented 45 percent of world GDP.19. Globalization is therefore reorganizing production worldwise. Rich countriesas well as a good number of developing countries are growing at faster rates than in the past, but among them, the dynamic middle-income Asian countries, Russia, and Argentina are growing faster and catching up. Asia, which for centuries was the world's richest region, has regained its importance in the world economy.

The accelerated economic development that we are witnessing in middle-income countries is not happening by accident. Those countries have nationalist business and bureaucratic elites that adopt national development strategies based on domestic savings and on competent macroeconomic policies. A national development strategy is an informal agreement among the social classes under the leadership or the intermediation of government, aiming at economic development. It presumes the existence of a developmental state - that is, a state that makes economic development one of its central concerns, as has always been the case with U.S. state (despite the fact that its orthodox economists insist on rejecting developmentalism). In Latin America, between the 1950s and 1970s, when growth rates were high, the corresponding states were called "developmentalist." More recently, after the pioneering contribution of Chalmers Johnson (1982) regarding Japan, the term developmental state has been reserved in international political economy mainly for dynamic Asian countries (Evans 1995; Woo-Cummings 1999). However, a state does not have to be called "developmental" for it to have a national development strategy. Ireland, for instance, has grown at extraordinary rates since the late 1980s as a result of a national strategy (Godoi 2007), Regarding national development strategies, for now we must consider that they constitute an institution, or more precisely, a set of laws, policies, and agreements aimed at creating lucrative investment opportunities for entrepreneurs.

Yet, while commercial globalization is an opportunity from which some developing countries are able to profit, financial globalization is a threat insofar as it leads countries to lose control over their exchange rates and to become excessively indebted in foreign currencies. Financial opening is favourable to rich countries because an overvalued exchange rate in developing countries favours rich countries commercial interests and also increases the amount of hard currency multinationals transfer to headquarters with a given revenue in the local currency. It is also favourable because there is no more effective way of making countries (and people, as in the limiting case of present slavery episodes) dependent. This is why, since the early 1990s, when the neoliberal hegemony seemed invincible, pressures grew on developing countries to open their capital accounts and try to grow with the use of foreign savings. Although many are the diagnoses, recommendations, and pressures made by rich countries through the World Bank, the International Monetary Fund, and other agents of the international financial system, the core of conventional orthodoxy is currently devoted to keeping developing countries exchange rates relatively appreciated. This orthodoxy is not yet committed to denying that the tendency toward exchange rate overvaluation I have recently identified exists, but merely insists that managing this rate is unfeasible. Conventional orthodoxy knows that only by means of an overvalued exchange rate can rich countries compensate for the advantage that middle-income countries derive from their low-cost labour. Therefore, as I discuss in Part II of the book, it denies the existence or the relevance of the Dutch disease for developing countries; insists on recommending the policy of growth with foreign savings; and unable to distinguish a depreciated from a competitive exchange rate, claims that any intervention in the exchange rate is unfair as it is a way of growing at one's neighbour's expense ("beggar thy neighbour"). Besides, it insistently argues that the use of so-called competitive devaluations weakens technological progress, and so productivity, as it artificially protects business enterprises from foreign competition, even though what I am proposing is no more than the neutralization of the tendency of the exchange rate toward overvaluation. The best efforts of conventional orthodoxy are directed to protecting the policy of growth with foreign savings, ignoring the fact that a current account deficit implies a high rate of substitution of foreign for domestic savings (Chapter 6). Actually the policy of growth with foreign savings is positive for a country only in a very particular situation, namely, when the national economy is already growing with foreign savings is positive for a country only in a very particular situation, namely, when the national economy is already growing fast and the prospects for profits are very good, because at the moment, the wage increases caused by exchange rate appreciation are oriented to consumption rather than to investment. Outside this particular situation, the consequences of the exchange rate appreciation, besides a decrease in exports and an increase in imports, will be successively, an increase in real wages; an increase in domestic consumption; the substitution of foreign for domestic savings; growing financial fragility, accentuating dependence; and eventually, if the country does not wake up in time, a balance-of-payment crisis (Breasser Pereira and Gala 2008).

To successfully compete under globalization, the necessary national development strategy of the successful Asian countries was always based on severe fiscal adjustment and a competitive exchange rate. Unlike in Latin America, the land reform that strongly reduced the differences of income between households made it possible for governments not to try to offset the concentration of income with social expenditure. This prevented fiscal populism. Yet, as far as the exchange rate was concerned, the dynamic Asian countries imposed strict limits on foreign indebtedness and limited capital inflows whenever necessary. They did not need to limit capital outflows because, except for the 1990s, when four Asian countries were attracted by the policy of growth with foreign savings and, not surprisingly, endured the 1997 crisis, they have always kept their foreign accounts balanced, and when they went into debt, they did so only moderately, and always when the country was already experiencing fast growth.

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