

Workshop
Currency Hierarchy, Macroeconomic Policies and Development
Strategies

Comments on the session Development strategies

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I - DTC + RRE in regard of the Chinese threat to Brazilian economy.

I would want to discuss the results of the econometric correlations with regard to the regimes of growth. I believe that those highlight macroeconomic interactions between regime of exchange and competitive advantages

- Main findings :
- Low DTC implies to specialize in primary and labor intensive productions for reducing dependence on imported inputs.
- Middle-income countries will maximize growth by increasing mid- and high-technology sectors as they compete in industries that are not so sensitive to URER
- URER has more important impact in developing countries as they compete against each other in cost-competing low-technology industries and in developed countries as they compete against emerging countries

- So, the fact that China is winning sectorial market share of Brazil would not be related to their difference in exchange regime but rather in DTC.
- Indeed, we can observe in Brazil that investments have been growing mainly in the commodities sectors but this can be precisely related to ORER as it was a driver of higher returns of financial assets and thus higher opportunity costs of productive investments.
- Econometrical correlations do not capture this vicious macroeconomic circle and even less the political economy of public decisions – why Brazil and other middle income countries as Mexico or Colombia could not escape to those perverse trends

Theories and evidences : the problem of “kaldorian” stylized facts

- Marquez recorded two important old debates about growth limits relates to:
 - low income elasticity of demand towards primary goods (Prebisch, 1959, p. 252)
 - imported input and capital bottlenecks can be the source of BoP crises if not properly managed (Kaldor,1966)
- Since the 90s', terms of trade have inverted but the Prebisch effect is even more perverse than before, as shows the data presented by Daniela Prates and Carolina Baltar.

Differences between China and Brazil considering their technological path and not only their level. So the question not in static but dynamic approach

- China succeeded in becoming the new magnet for world capital because, from the outset of this process, it had possessed the basic industrial structure necessary for future accumulation, its heavy industry.
- This was one initial condition for current Chinese growth, which harkens back to Pasinetti's (1981) approach based on an analysis of vertically integrated sectors, to develop a production chain represented by a series of labor coefficients:
 - direct (the quantity of labor necessary to produce the final goods),
 - indirect (the coefficient related to production of capital goods used for the final goods),
 - and hyper-indirect (the labor coefficient required to produce capital goods for producing capital goods).
- The question is whether would be conceivable for Brazil (in light of its path dependence) the acquisition of this Adam Smith type of competitive advantage founded on a larger basis for a capital accumulation retro-alimented by social division of labor
- Yet, the momentum itself of the domestic market is viewed in Brazil as a result of the growing value of commodities exports and financial securities. The entire economy has been thus rolled up in a financial bubble without strengthening industry and its services

<http://www.cairn-int.info/journal-tiers-monde-2011-4-page-83.htm>

- THE CHALLENGES OF CHINESE INFLUENCE ON DEVELOPMENT IN BRAZIL: COMPARATIVE ADVANTAGE AND DISTRIBUTIVE CONFLICT

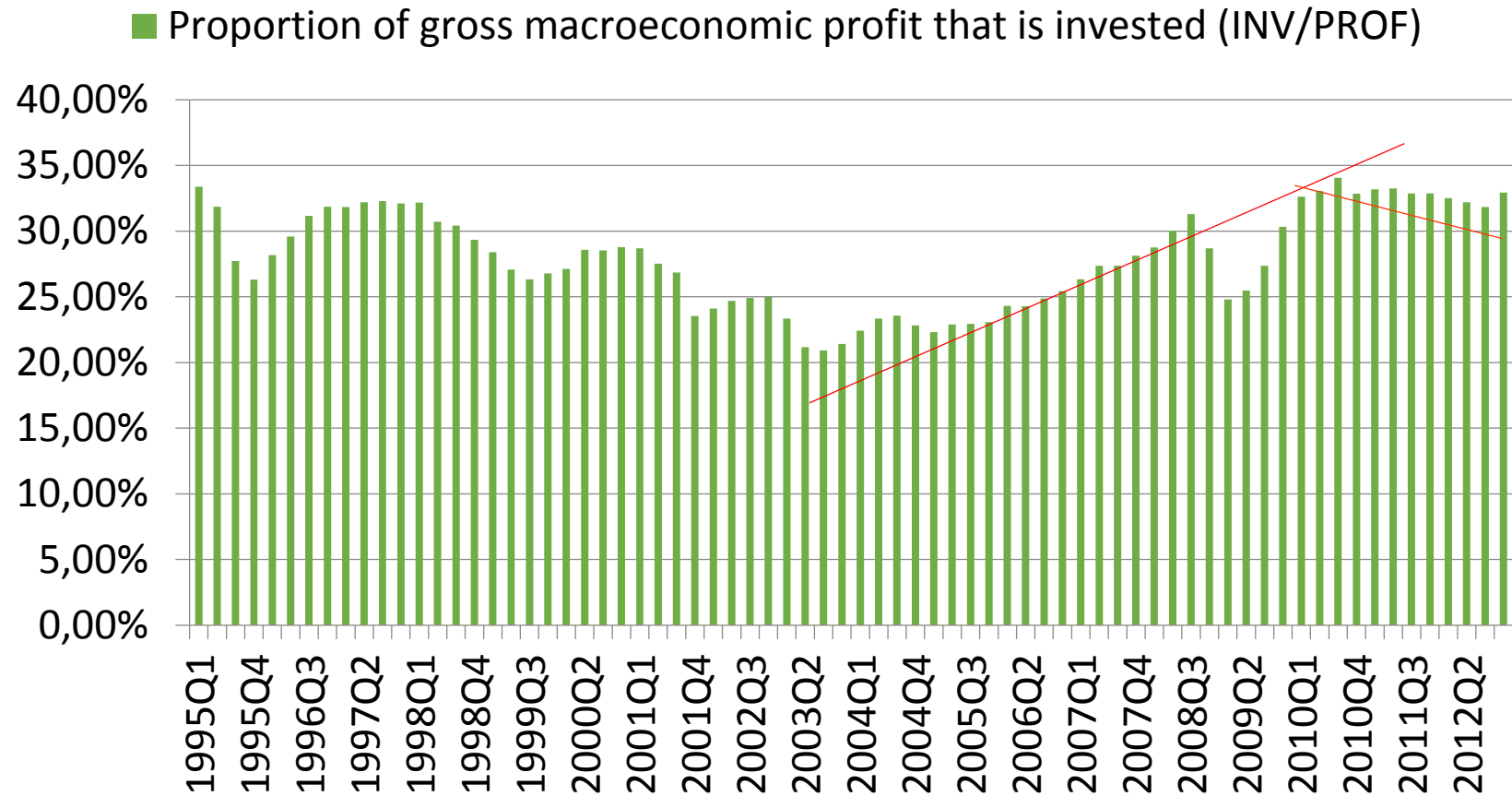
« Les défis de l'influence de la Chine sur le développement du Brésil », *Revue Tiers Monde*, 2011/4 No 208, p. 83-102.

Miguel Bruno, Joseph Halevi ,Jaime Marques Pereira

The perverse impact of ORER in Brazil - a DTC trap – traduces the governmental constraint related to the monetary power of “rentiers”

- In Brazil, appreciated money has permitted lowering basic interest rate until certain spread standard. It has launched a positive macroeconomic dynamic that reduces public debt ratio to GDP despite its growing stock. Growing public expenses contributes with credit to consumption and a new wage regime to the increasing growth rate that contribute to higher fiscal returns.
- Financial assets/productive K ratio has been growing, even allowing the accumulation rate to increase. But the latter remains insufficient for escaping to the reversal of this virtuous macroeconomic dynamics
- **The main cause of the reversal is the continuity of financial dominance over determinants of investment having limited investment’s progression. The main challenge is how to revert the negative elasticity to growth of industrial imports**

Proportion of gross macroeconomic profit that is invested (INV/PROF)



II - Center-Periphery revisited by monetary hierarchy impacts. But considerate also the reversal seems to be necessary.

“It is obvious that the peripheral countries, if they were able to denominate - even partially - their international trade and their foreign debt in domestic currency, they would do it, reducing the problem of currency mismatch and making easier for the domestic agents the economic calculation and the ability to honor their commitments”

The fact is that they have been able to generate a demand for public debts denominated in their own currencies. Is this only related to international financial boom period or does it traduces an impact of the redefinition of Centre / Periphery interaction on monetary hierarchy?

Some elements given by the authors suggest the second answer should be explored even the first one can't be excluded in light of the last BoP crisis.

Some changes in monetary hierarchy concerning the periphery that should be more considered

1. “The non spot operations involving the peripheral currencies do not mean they fulfil the store of value function but those are demanded for speculative motive. So they fulfil a role of means of payment and unit of account in financial transactions. And this is a new fact.”
 2. “As they are offered and demanded in growing significant volumes in cross-border Forex markets they fulfil money functions (excluding means of trade) at international level.”
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1. An associated trend deserves more reflections: the relative OREER of some peripheral moneys and UREER of central moneys seems to play an important role in the new international division of labor: emergent countries have been a expanded market for production goods made by central economies and consumption goods made by China
 2. It has to be noted that similar phenomenon can be observed inside Eurozone in the evolution of higher relative prices in peripheral economies combined with growing capital entries and thus UREER euro for central economies