Nation States: National Autonomy and Development Strategies

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The Modern Nation State and the World Market

- The "great transformation" (the formation of capitalist markets – a historical process that gave shape to the modern nation-state)

- Capitalist property rights inscribed in national legal-institutional frameworks:
  - *basic condition for the functioning of a world capital markets*

- Hyerarchical system and monetary hegemony: world monetary standard (reserve currency as capital asset

Modern Nation State and the World Markets are Creatures of the Same Historical Process

- Culture/identity, authority/security, territory/geo-sovereignty are national

- States hold specific forms (legal-institutional) but basic capitalist rights were widely recognized and made operational

- However, "globalization" is disolving and constraining national autonomy

Hyerarchy and Differentiation

- Hegemonic powers: world money and military capability

- Factors of differentiation
  - *social structure/population*
  - *industrial/entrepreneurial systems*
  - *national system of innovation*
  - *natural resources endownment/geography*
  - *state capability*
  - *monetary convertibility/balance of payments/reserves/size of external debt-liabilities*

Hyerarchy and Differentiation

• Factors of homogenization (80´s – 90´s)
- *integration and expansion of capital markets (financial transactions, enhanced capital mobility, deregulation of capital flows)*
- *acceleration of direct investments (transnationals, TRIMS, TRIPS, MIGA...)*
- *trade expansion and regional integration (free trade areas, WTO rules...)*
- *ICT, internet, global media,"globalizing" NGO´s and other processes*

• Denationalization and Shrinking National Sovereignty

The Challenge of Building up Autonomy

- Strengthening of Developing Nation-States Requires
  - *reinforced innovation capability (national systems)*
  - *competitive drive* → *ability to obtain trade and investment gains in world markets*
  - *small external indebtedness and robust balance of payments (large cushion of foreign exchange reserves, foreign exchange and capital controls)*
  - *state and private management capability*

- Examples: China, South Korea, Russia, India

GPD Growth

	GPB (US$ Million)						Increase Average Rate			
	1985	**1990**	**1995**	**2000**	**2002**		**85-90**	**90-95**	**95-00**	**00-02**
1. Brazil	232	465	704	599	448		3,1	1,9	2,4	2,4
2. South Korea	94	252	489	461,5	462		9,0	7,7	5,3	6,2
3. China	305	383	700	1080	1237		8,9	10,6	8,4	7,8
4. India	222	311	347	463	502		6,1	5,3	6,0	4,6
5. Mexico	184	263	286	581	642		1,9	2,2	3,0	2,4
6. Australia	168	308	361	379	399		3,7	2,6	3,8	3,0

Source: Consensus Forecasts, IMF, IBDR

Debt and Current Account

	External Debt						Current Account Balance				
	1985	**1990**	**1995**	**2000**	**2002**		**1985**	**1990**	**1995**	**2000**	**2002**
1. Brazil	104	120	159	238	229		0,3	-3,8	-18,1	-24,7	-7,7
2. South Korea	nd	nd	160	131	134		-0,8	-2,0	-8,5	12,2	6,1
3. China	nd	nd	178	175	171		-11,4	12,0	1,6	20,5	35,4
4. India	41	84	99	98	98		-4,2	-7,0	-5,6	-5,1	4,8
5. Mexico	97	104	167	159	162		0,8	-7,5	-1,6	-18,2	-14,0
6. Australia	nd	nd	nd	240	287		-9,2	-16,0	-19,6	-15,0	-17,6

Source: Consensus Forecasts, IMF, IBDR

Export/Trade Balance

	Exports (US$ billion)						Trade Balance				
	1985	**1990**	**1995**	**2000**	**2002**		**1985**	**1990**	**1995**	**2000**	**2002**
1. Brazil	25,6	31,4	46,5	55,1	60,4		12,5	10,8	-3,2	-0,7	13,1
2. South Korea	30,3	65,0	125,1	172,3	162,6		0,0	-2,4	-4,4	16,9	14,2
3. China	27,3	62,1	148,8	249,3	325,6		-13,1	9,7	18,1	34,5	30,4
4. India	9,1	18,0	30,6	42,4	52,2		-5,6	-5,2	-6,7	-12,2	-9,1
5. Mexico	26,8	40,7	79,5	166,4	160,8		8,4	-0,9	7,1	-8,0	-7,9
6. Australia	22,6	39,8	53,1	63,9	n.d.		-1,0	0,4	-4,2	-4,7	-4,9

Source: Consensus Forecasts - Eastern Europe, Asia Pacific and Latin America

- Latin America is still behind in terms of balance of payments adjustment...

Indicators of external vulnrability		(in % of exports)			
		2001	2002	2003	2004
Current Account	Asia	5,1	8,3	4,8	3,6
	EE/ME[1]	14,2	8,9	10,9	6,0
	América Latina	-15,2	-4,3	-3,7	-5,4
External Debt	Asia	98,1	85,6	76,9	71,6
	EE/ME[1]	152,3	153,1	136,4	138,8
	Latin America	215,2	214,6	208,1	190,3
Debt Service	Asia	14,3	13,6	12,2	9,7
	EE/ME[1]	13,8	12,1	11,5	12,1
	Latin America	49,6	41,5	40,7	38,7

(1) Eastern Europe and Middle East. Source: IMF, Sept/03.

Average Country/Area Risk for Emerging Economies

basis points in Oct. 24, 2003
Source: JP Morgan

Total	Asia	Eastern Europe	Latin America	Brazil
482	348	281	619	649
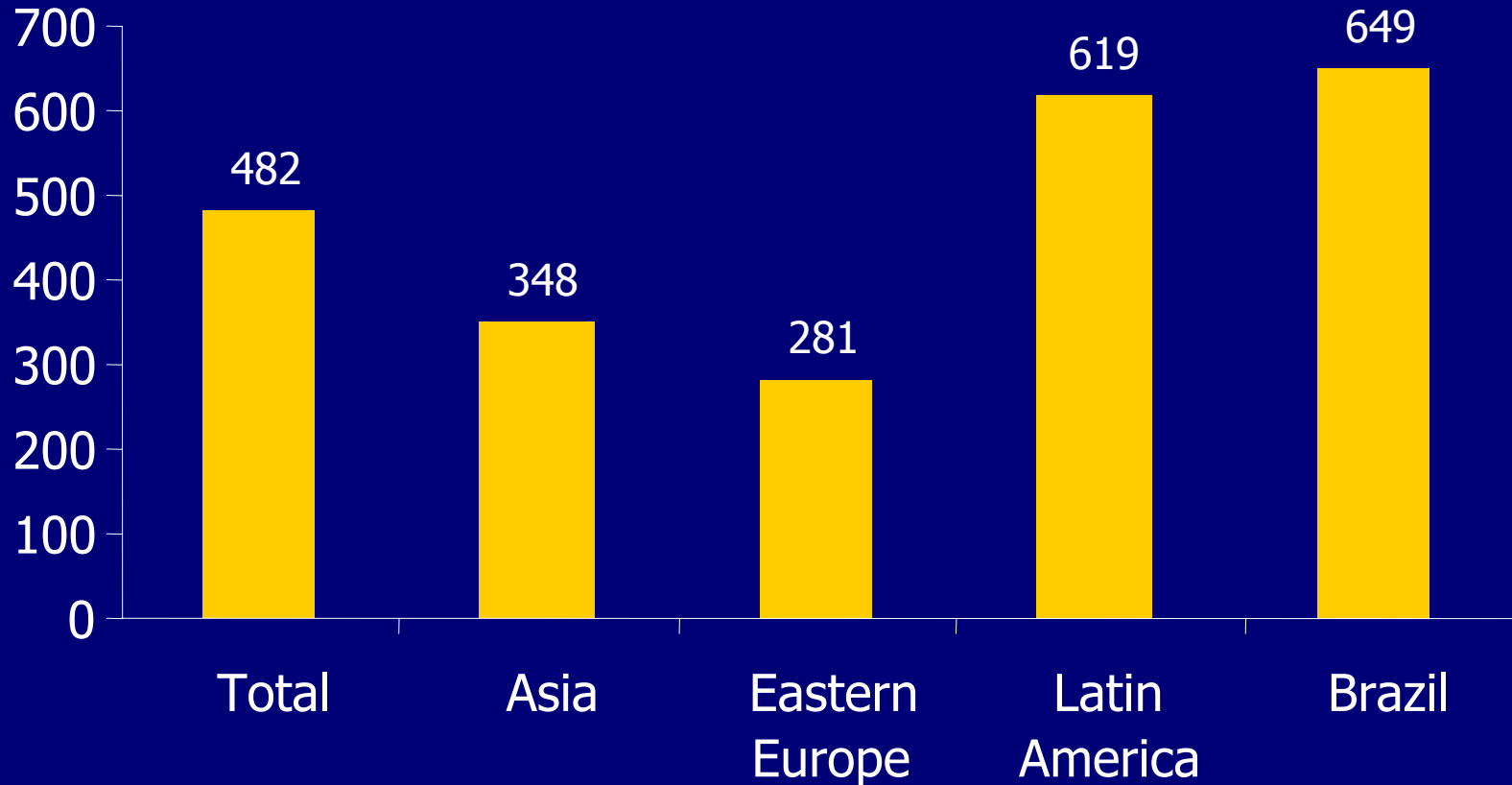
Estimated GDP
Growth for Emerging Economies

Observed and projected GDP growth rates

(in % per annum)

	2001	2002	2003	2004	2005-08
Total Emerging	4,1	4,6	5,0	5,6	5,9
Asia	5,8	6,4	6,4	6,5	6,8
EE/ME[1]	2,0	4,8	5,1	4,6	5,0
Latin America	0,7	-0,1	1,1	3,6	3,8

(1) Eastern Europe and Middle East. Source: IMF, Sept/03.

Perverse Global Allocation of Capital Flows

- Developing economics cannot function well and grow steadily if they incurr in persistent current account deficits...

- Financial markets are not able to cope with recurrent waves of flight to quality...

- Thus causing foreign exchange crisis, instability and poor growth performance

Lack of global financial regulation/governance impair the efficient allocation of capital

Autonomy to Develop Innovation and Competitiveness (macro-financial)

- Zero-dependency *viz a viz* global capital markets: large trade surplus
  - large foreign exchange reserves
  - very low/zero foreign exchange risk

- High domestic savings rate and low interest-rate long term financing systems (based on long term credit and/or on long term institutional savings?)

Autonomy to Develop Innovation and Competitiveness (entrepreneurial actors/communities)

- Big national enterprizes capable of operating internationally

- Local-creative R&D by big firms

- National-sectoral innovation systems (e.g. energy, telecom, aerospace...)

- Regional production-learning-innovation systems (agribusiness, natural resources-based sectors)

- Local-production-learning-innovation systems (industry clusters of small scale firms)

Autonomy to Develop Innovation and Competitiveness (management capability)

- Competence building in state policy management able to:
  - *focus and establish social priority*
  - *coordinate and induce cooperation*
  - *cope with scarce resourcers*
  - *organize local/regional systems*

- Competence building on private management- big firms, local/regional systems, sectoral systems

National Development Projects...

- Is it an outdated concept?
  - yes, if pursued through authoritarian regimes...

- A democratic way would imply/require:
  - a sense of mission, national purpose and engagement backed by wide socio-political support
  - basic conditions for autonomous policy-making

Thus, a difficult historical construct: away from "Brazilianization" towards enlarged citizenship and growing social equality