

ECONOMIC LIBERALIZATION IN LATIN AMERICA UNDER THE HISTORICAL LENS



UNITED NATIONS

DESA

**JOSÉ ANTONIO OCAMPO
UNDER-SECRETARY-GENERAL**

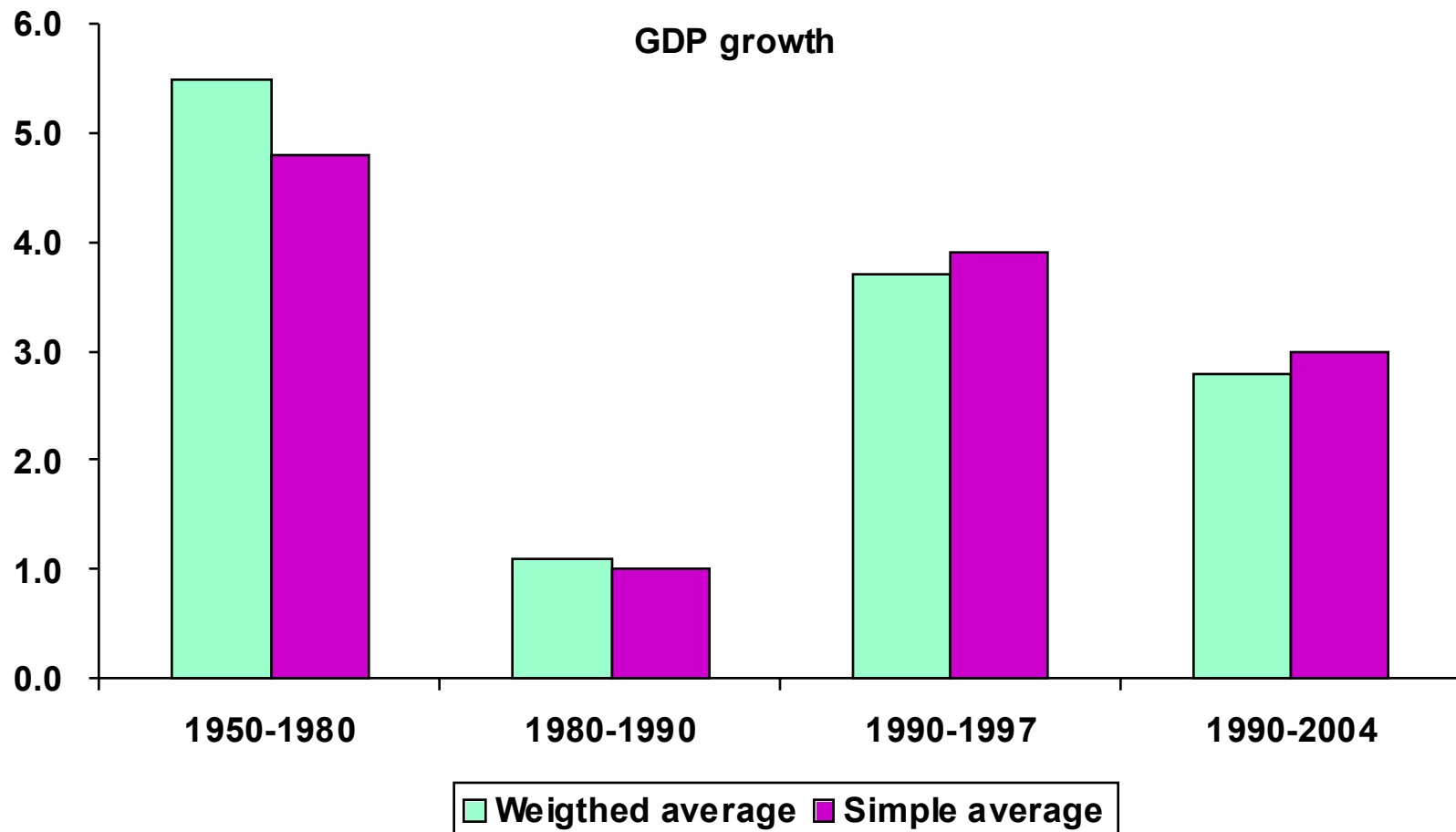
**OVER THE PAST TWENTY-FINVE
YEARS, LATIN AMERICA'S ECONOMIC
POLICY HAS BEEN BASED
ON TWO BASIC ASSUMPTIONS:**

- State-led Industrialization was inefficient
- The liberalization of market forces was necessary, therefore, to generate competitive and dynamic economies

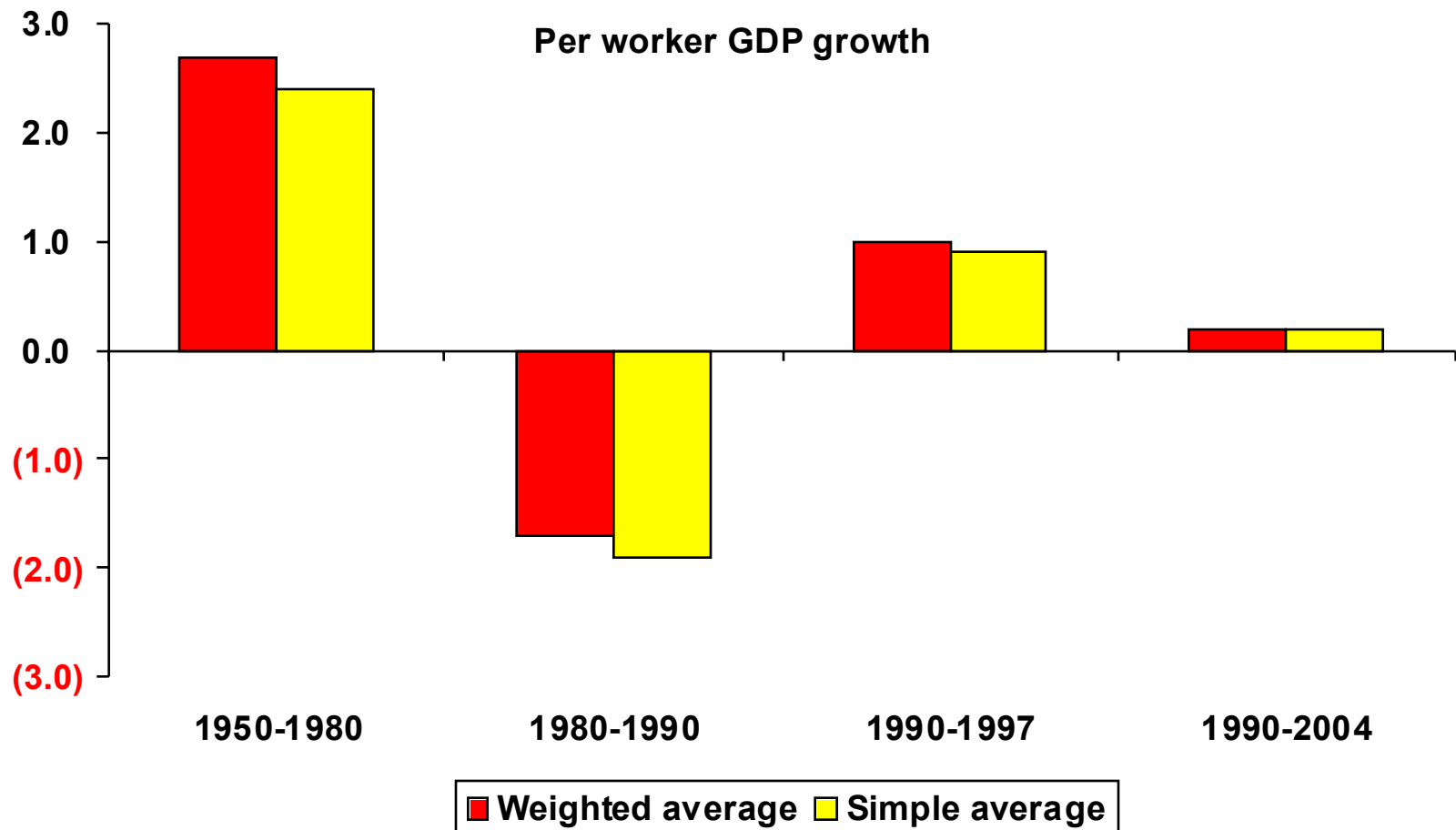
THESE CLAIMS CONFRONT, NEVERTHELESS, TWO STUBBORN FACTS:

- The last twenty-five years have been the worst in the region's history of economic performance
- Economic growth was highly superior under the State-led industrialization model

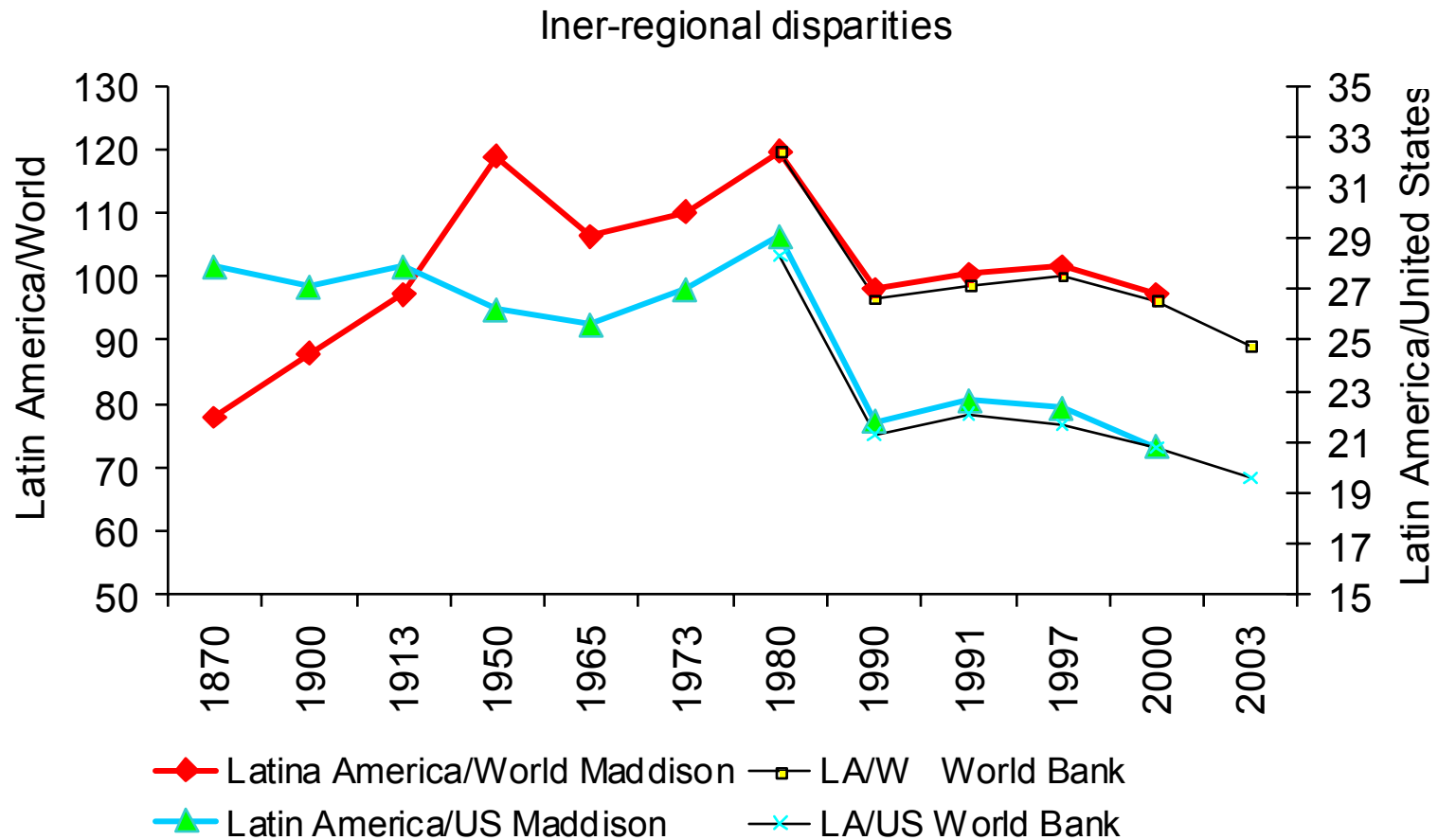
THE LAST TWENTY-FIVE YEARS PERFORMANCE HAS BEEN MEDIocre



THE LAST TWENTY-FIVE YEARS PERFORMANCE HAS BEEN MEDIocre



COMPARED TO THE REST OF THE WORLD, WE HAVE RECEDED TO THE SAME LEVELS OF A CENTURY AGO



FOUR QUESTIONS THAT WE MUST ANSWER

- Why did the State-led industrialization model collapse?
- Why was the debt crisis so severe?
- Why was the later economic recovery so frustrating?
- Is the mediocre economic performance associated to an equally poor social performance?

FIRST QUESTION

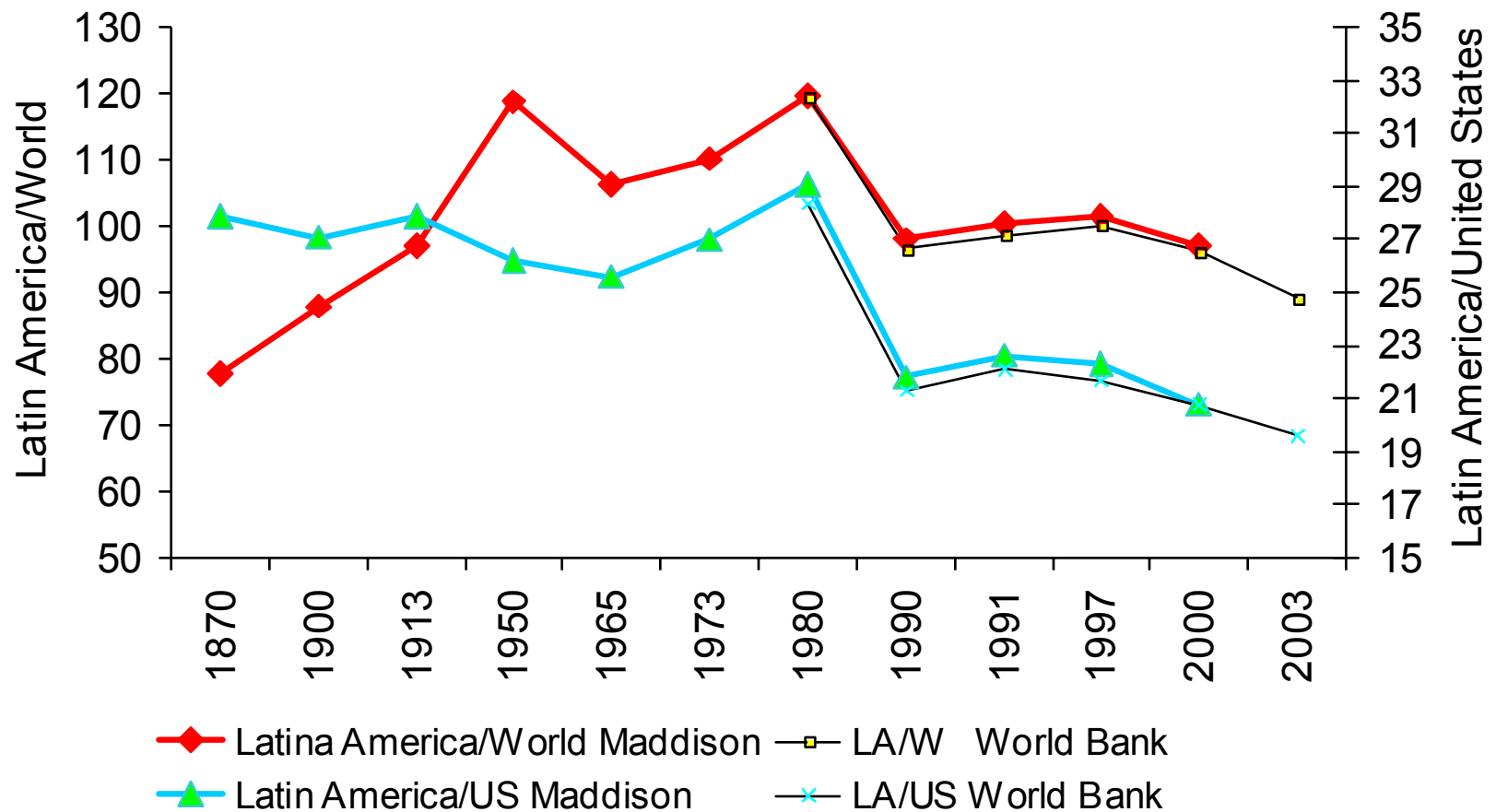
**WHY DID THE STATE-LED
INDUSTRIALIZATION MODEL
COLLAPSE?**

EXHAUSTION OF IMPORT SUBSTITUTION?

- In the majority of the countries, Import substitution was exhausted long before the debt crisis.
- For that reason, a new strategy had emerged : a “mixed model”
 - ✓ Export promotion
 - ✓ Regional integration
 - ✓ Gradual rationalization of protection
 - ✓ In inflationary countries, gradual devaluation schemes
- To talk about “import substitution” as the dominant model in the 1970s, is thus a clear anachronism.
- In this framework, Latin America had a dynamic performance since the mid sixties’

THE LATE PHASE OF STATE-LED INDUSTRIALIZATION WAS RELATIVELY SUCCESSFUL

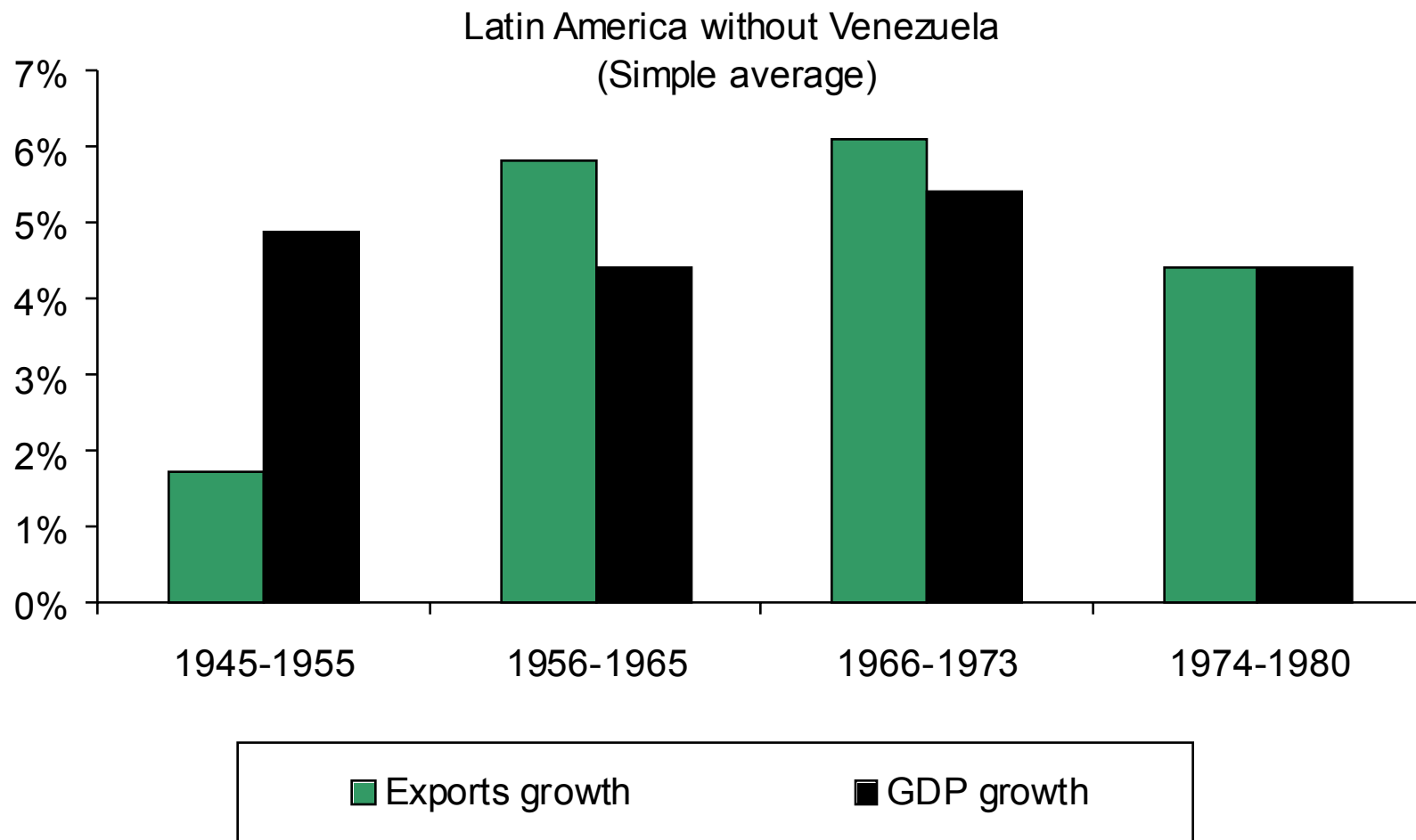
Iner-regional disparities



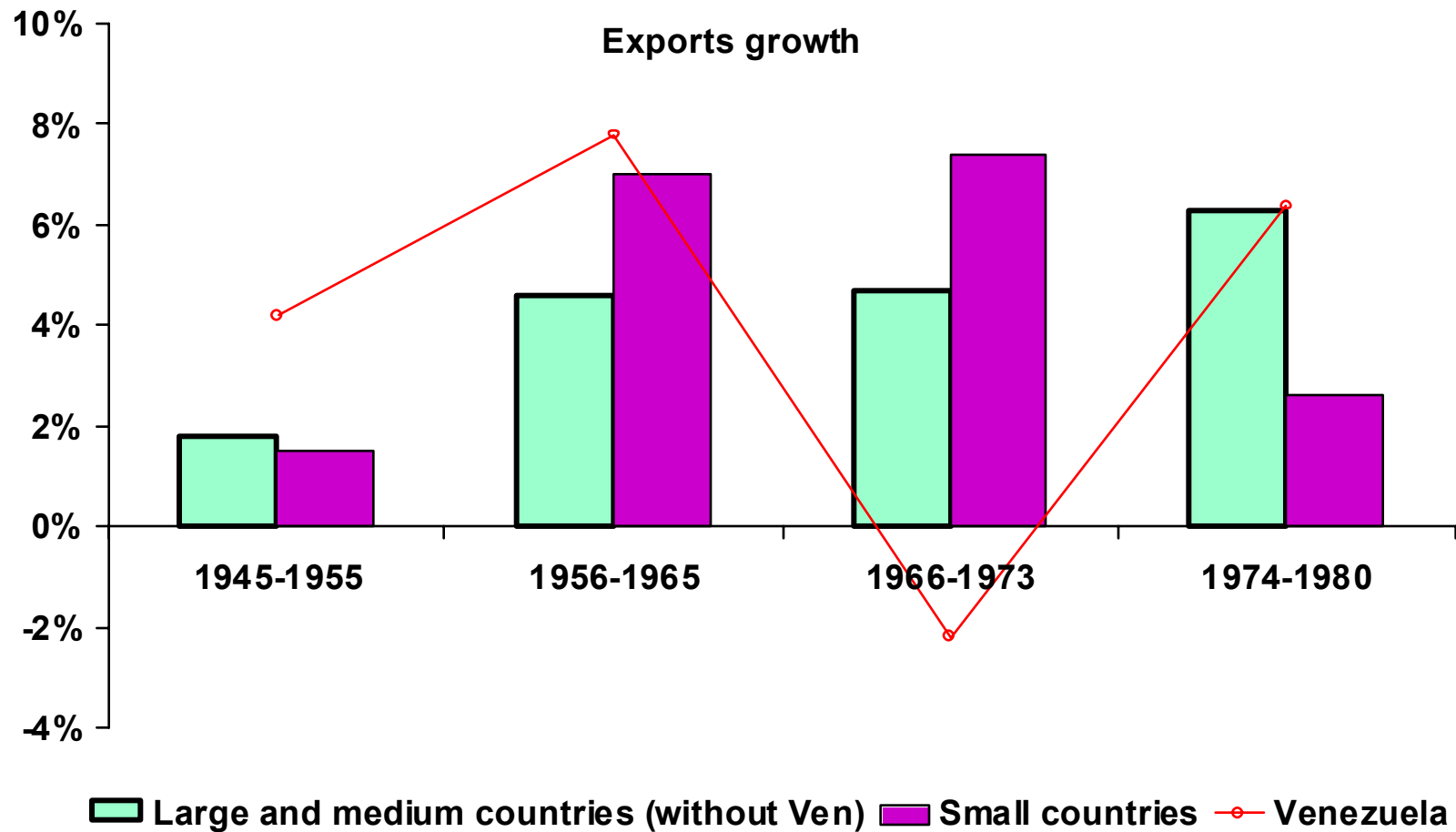
THERE ARE SEVERAL MYTHS ABOUT EXPORT DYNAMISM DURING THIS PHASE

- The slow dynamism of exports was concentrated in the early post-war years and in major countries
- Exports accelerated since the mid-1950s
- However, the region lost market share in the commodity markets, specially oil and oil products

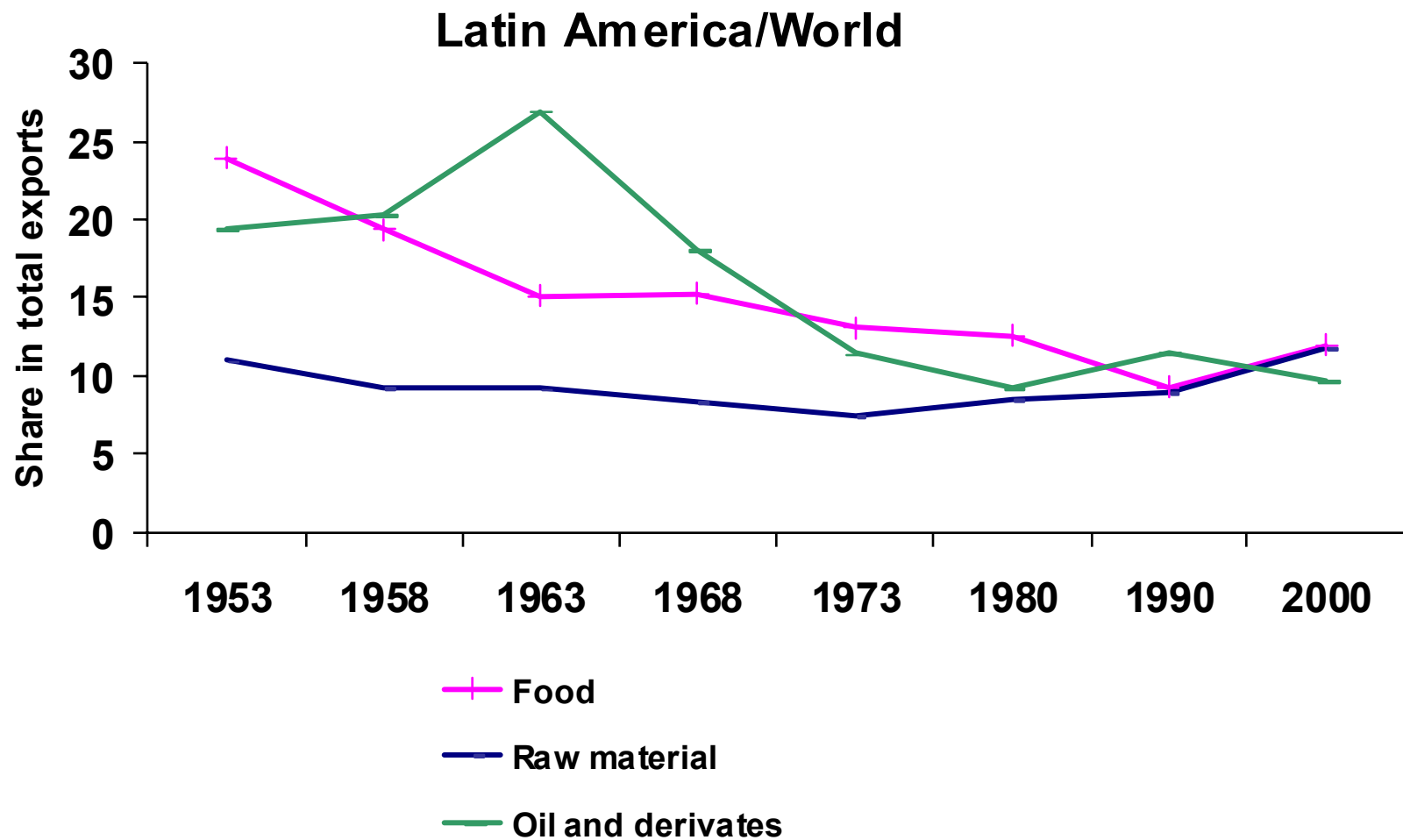
EXPORTS ACCELERATED SINCE THE MID-1950s...



EXPORTS ACCELERATED SINCE THE MID-1950s...

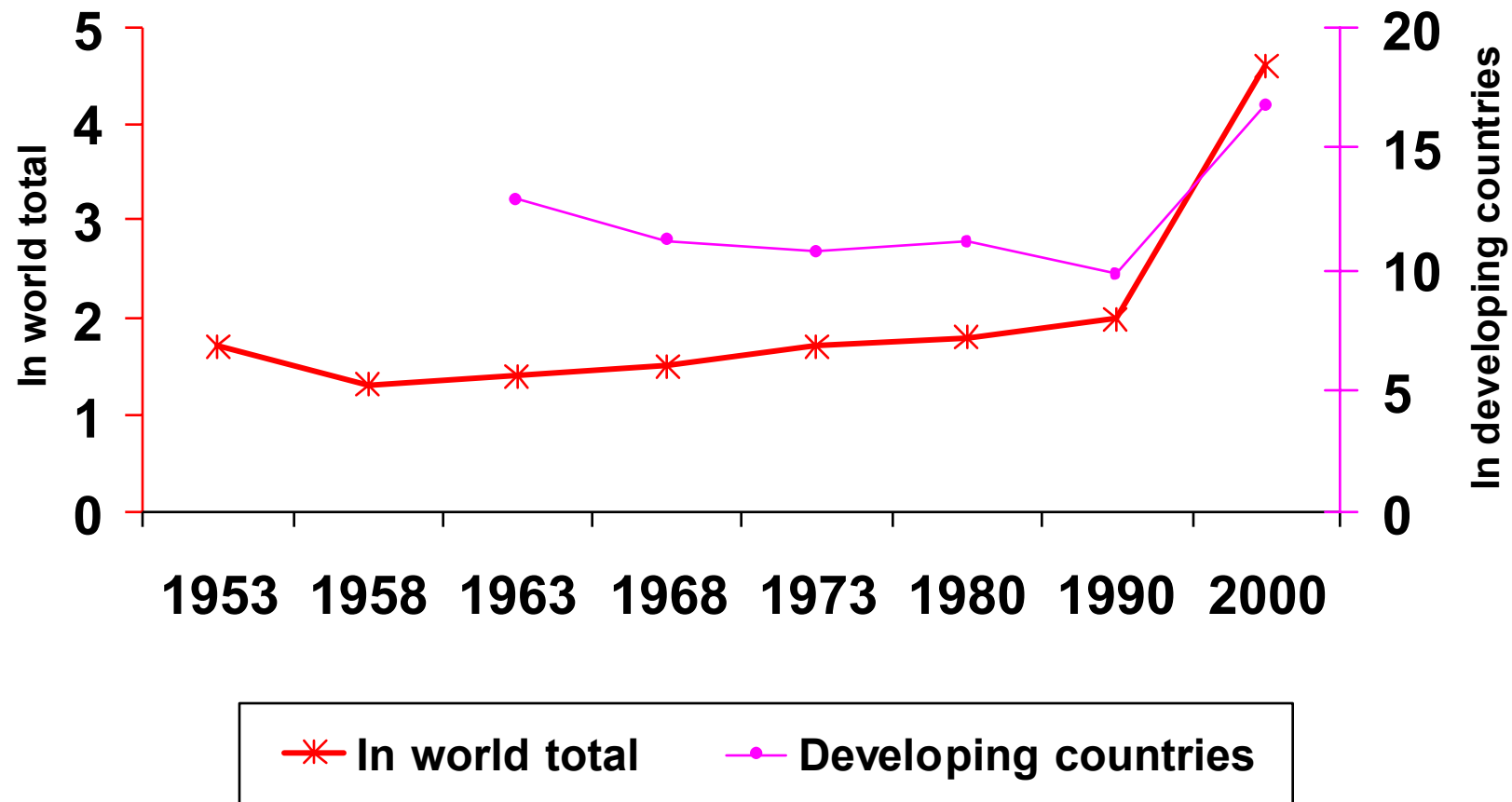


THE REGION LOST MARKET SHARE IN FOOD AND ENERGY MARKETS...



...HOWEVER, IT BENEFITED FROM THE GROWTH OF WORLD MANUFACTURING TRADE

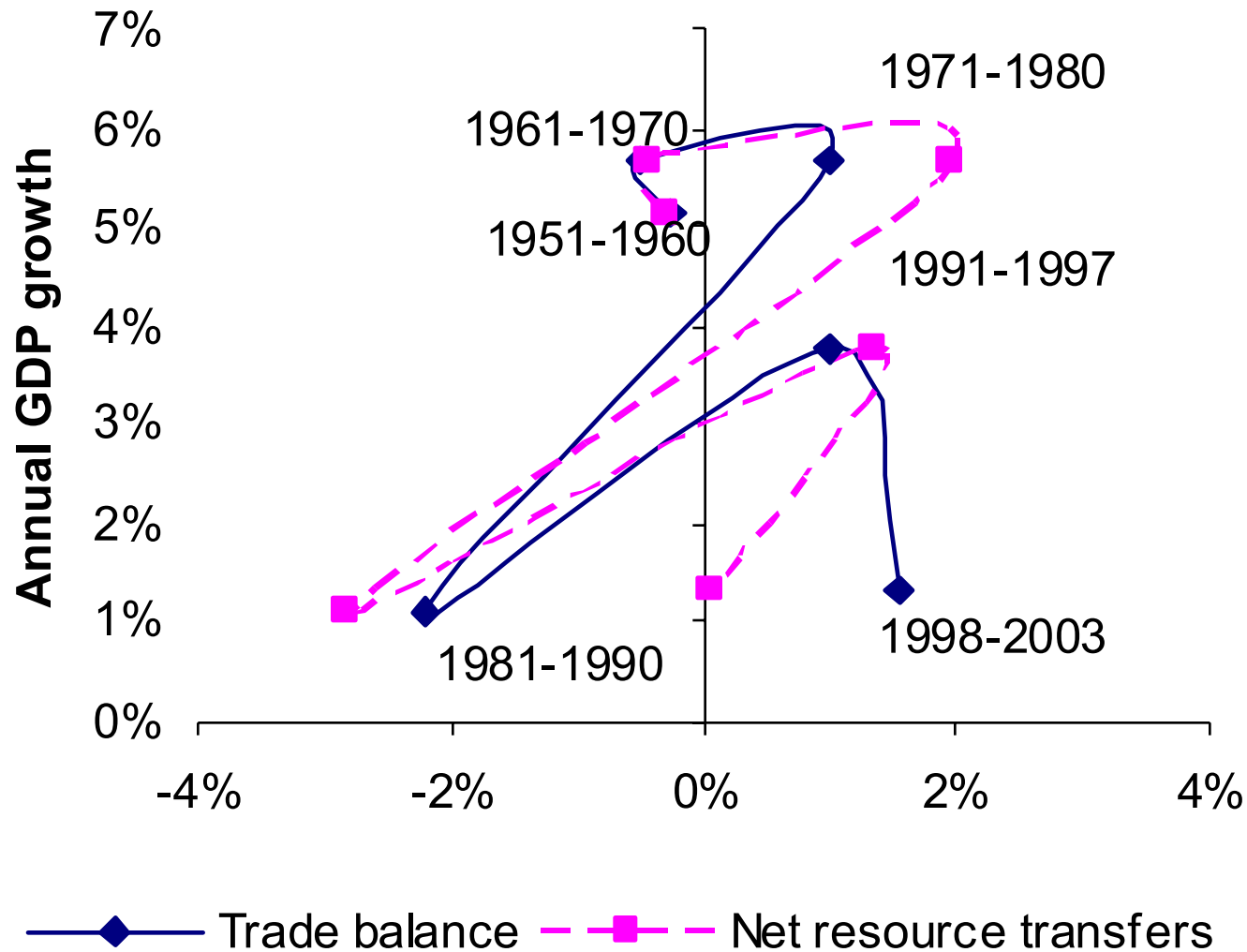
Latin America in manufacture exports



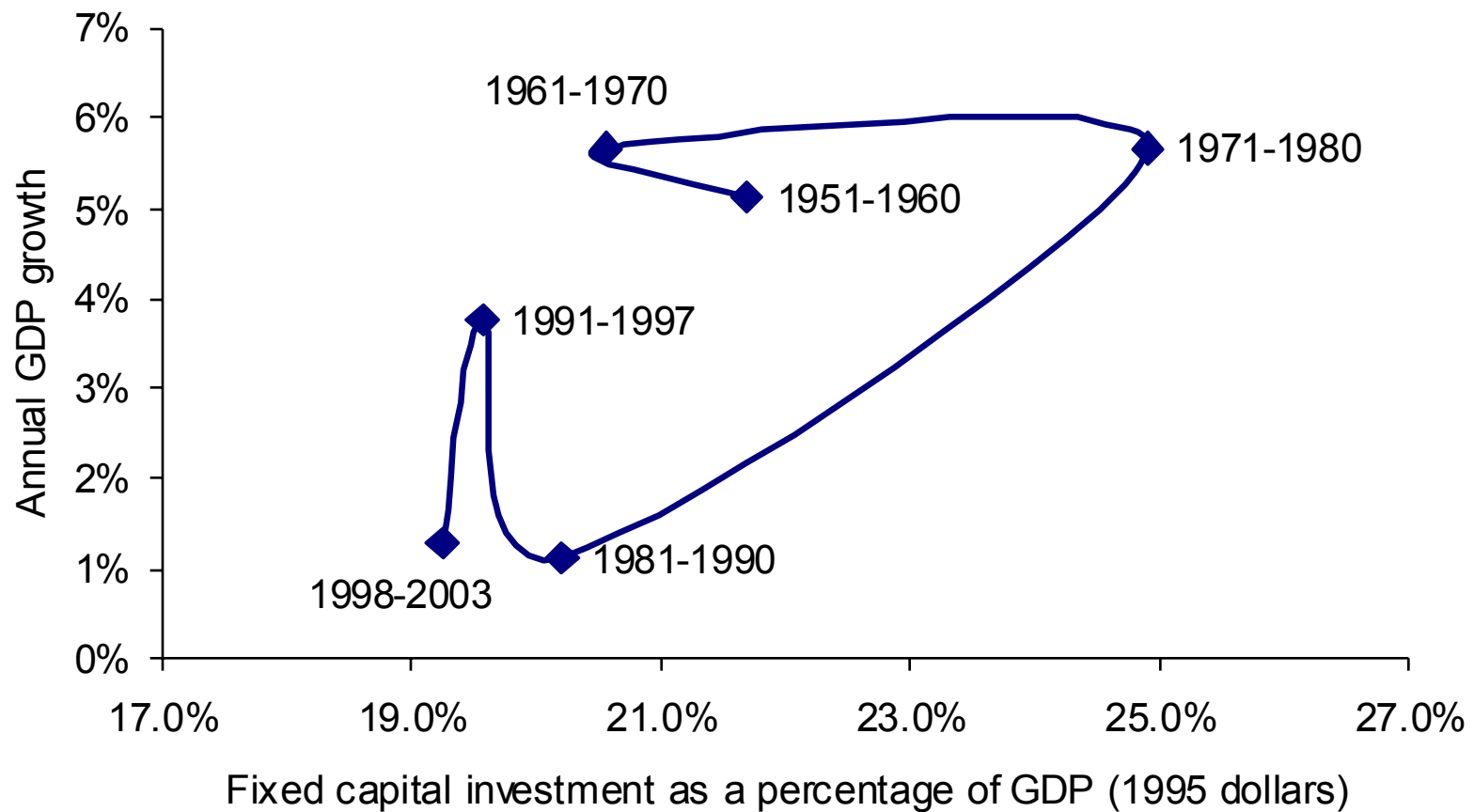
A BETTER EXPLANATION OF THE CRISIS: MACROECONOMIC VULNERABILITIES

- In spite of export dynamism, larger external deficits
- Larger investment requirements
- Fiscal vulnerabilities
- Even more important: distortions generated by the abundant external financing
 - ✓ They affected to a larger extent the more liberalized economies of the Southern Cone...
 - ✓ ... they had affected in the past the export economies...
 - ✓ ... would affect, again, in the 1990s, the liberalized economies
- This is, therefore, a more generalized phenomenon compared to the alleged exhaustion of the “import substitution” model

DETERIORATION OF THE RELATION GROWTH/ TRADE BALANCE IN THE 1970s...



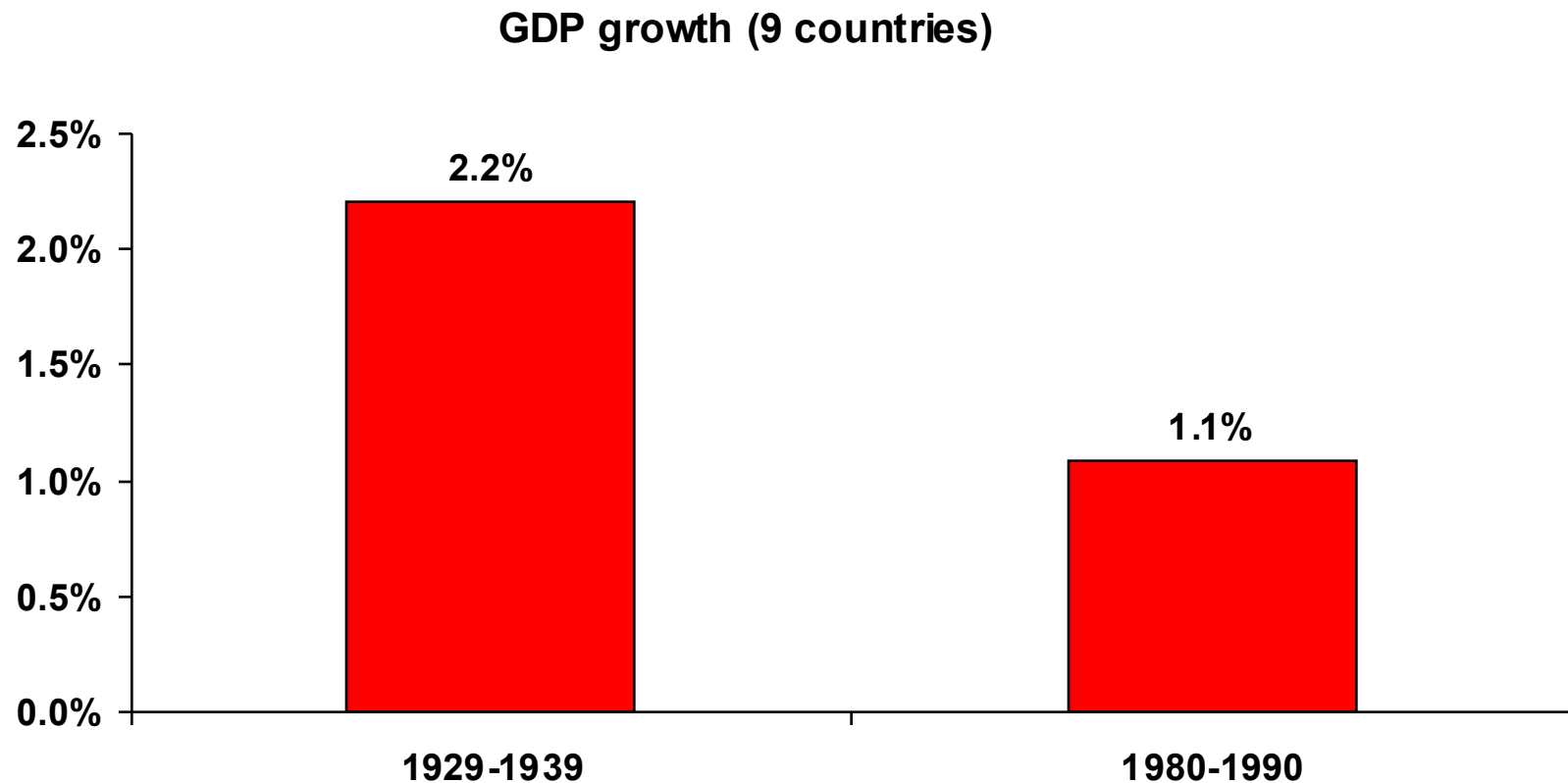
...AND LARGER INVESTMENT REQUIREMENTS



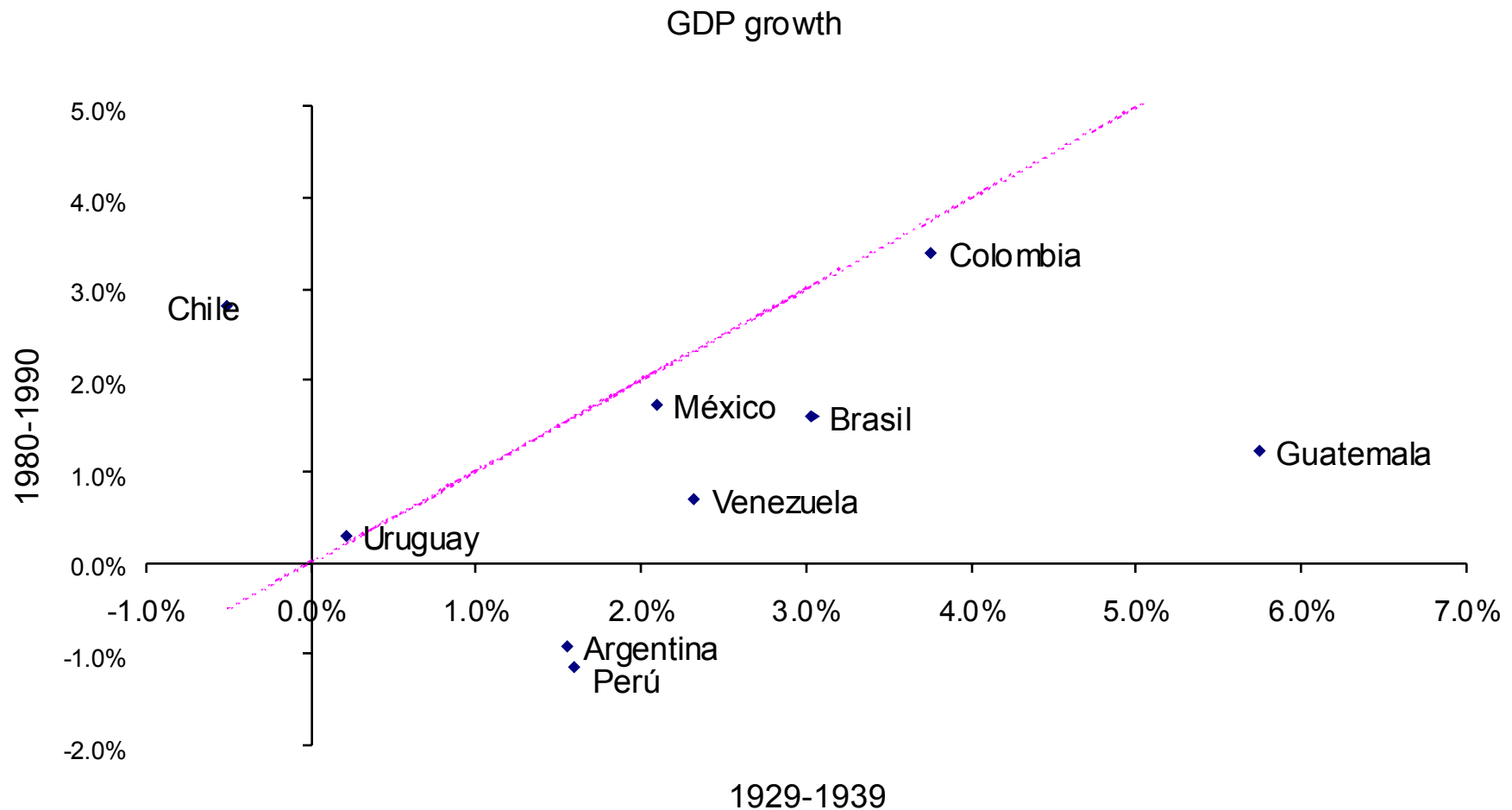
SECOND QUESTION

**WHY WAS THE DEBT CRISIS SO
SEVERE?**

GROWTH DURING THE LOST DECADE WAS HALF OF THE EXPERIENCED DURING THE GREAT DEPRESSION



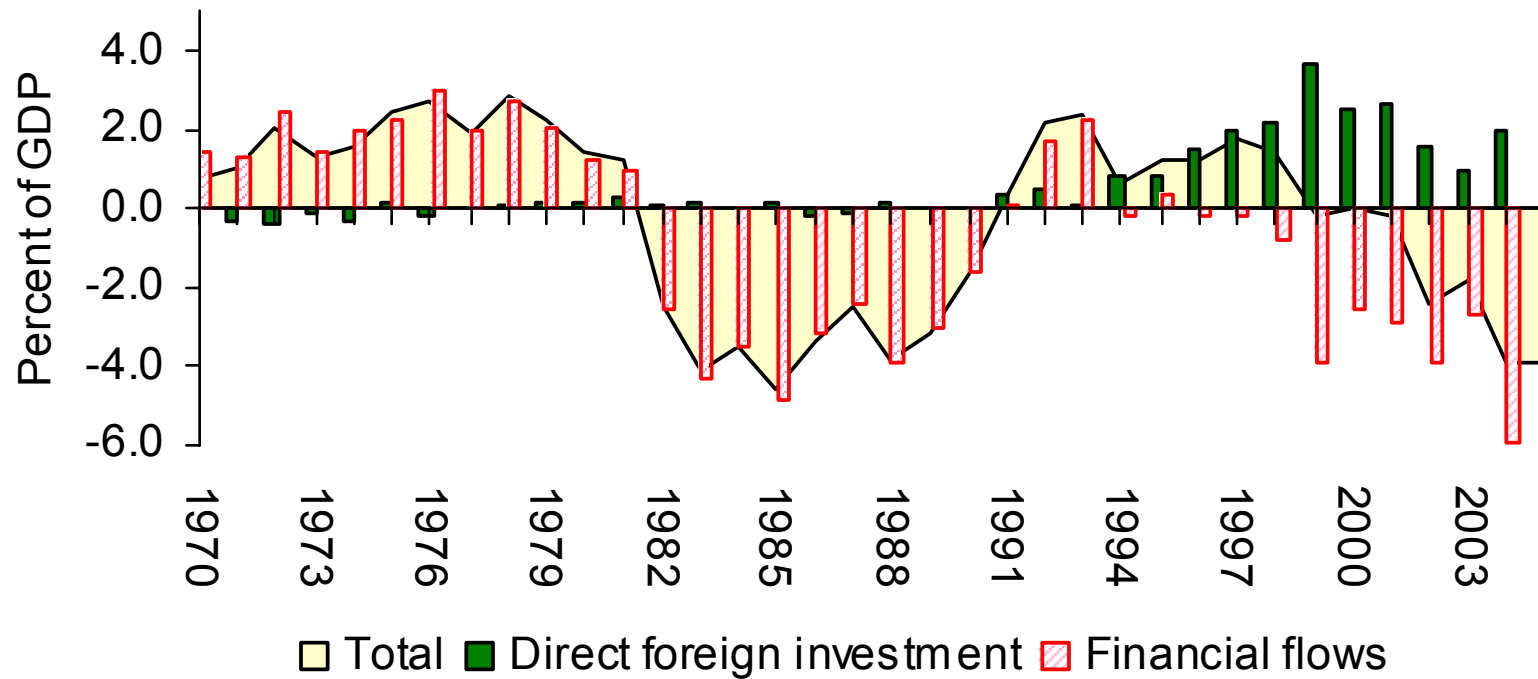
THIS IS TRUE IN THE MAJORITY OF THE COUNTRIES (CHILE IS THE ONLY EXCEPTION)



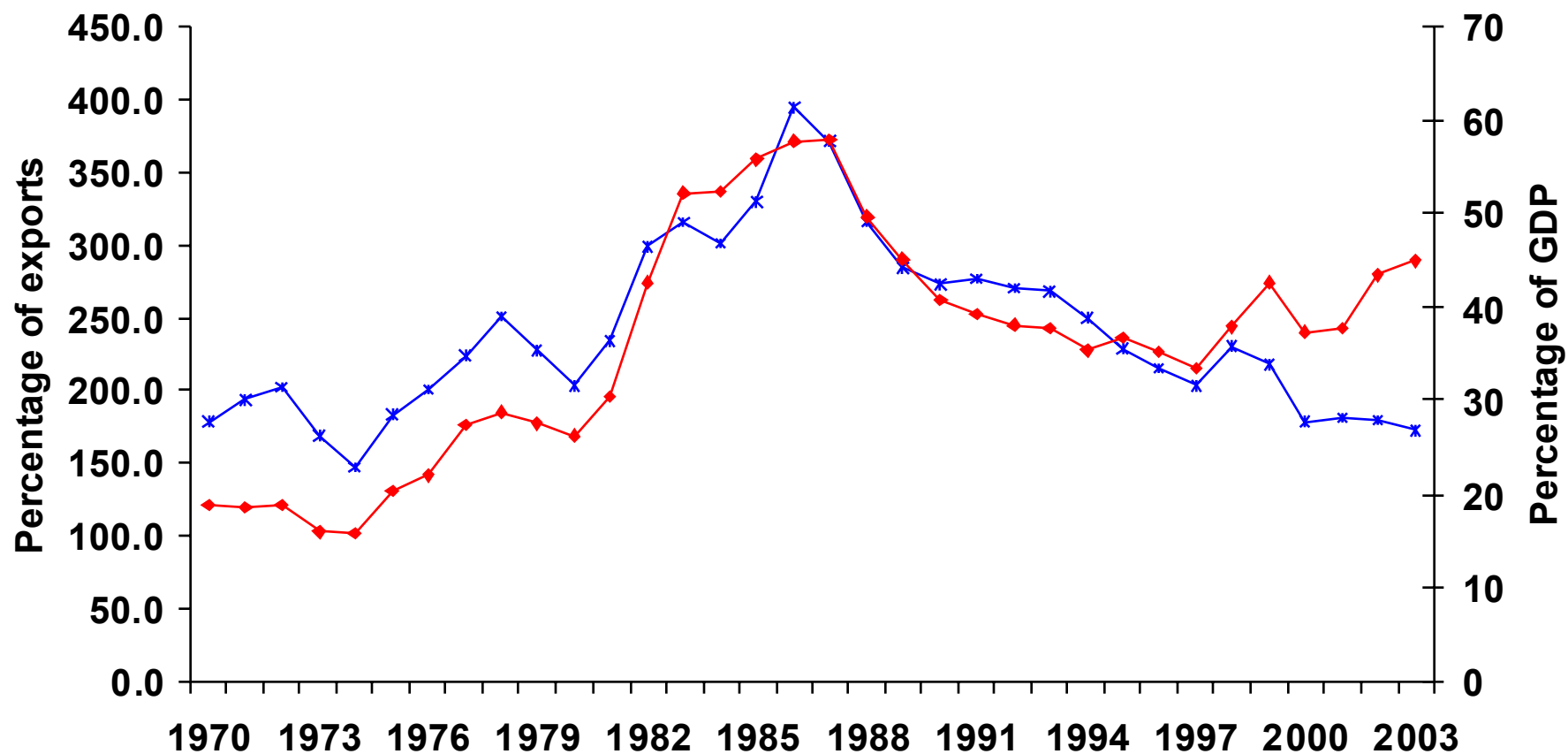
THE BASIC REASONS: TWO EXTERNAL SHOCKS WITHOUT PRECEDENTS (OR ONLY DISTANT PRECEDENTS)

- The reversal of the capital account : from positive transfers of around 2-3% of GDP to negative transfers of 4-5% of GDP.
- Collapse in the prices of non-oil commodities (-32%).
- These shocks confronted vulnerable economies in macroeconomic terms.

AN ABRUPT REVERSAL IN EXTERNAL FINANCING...

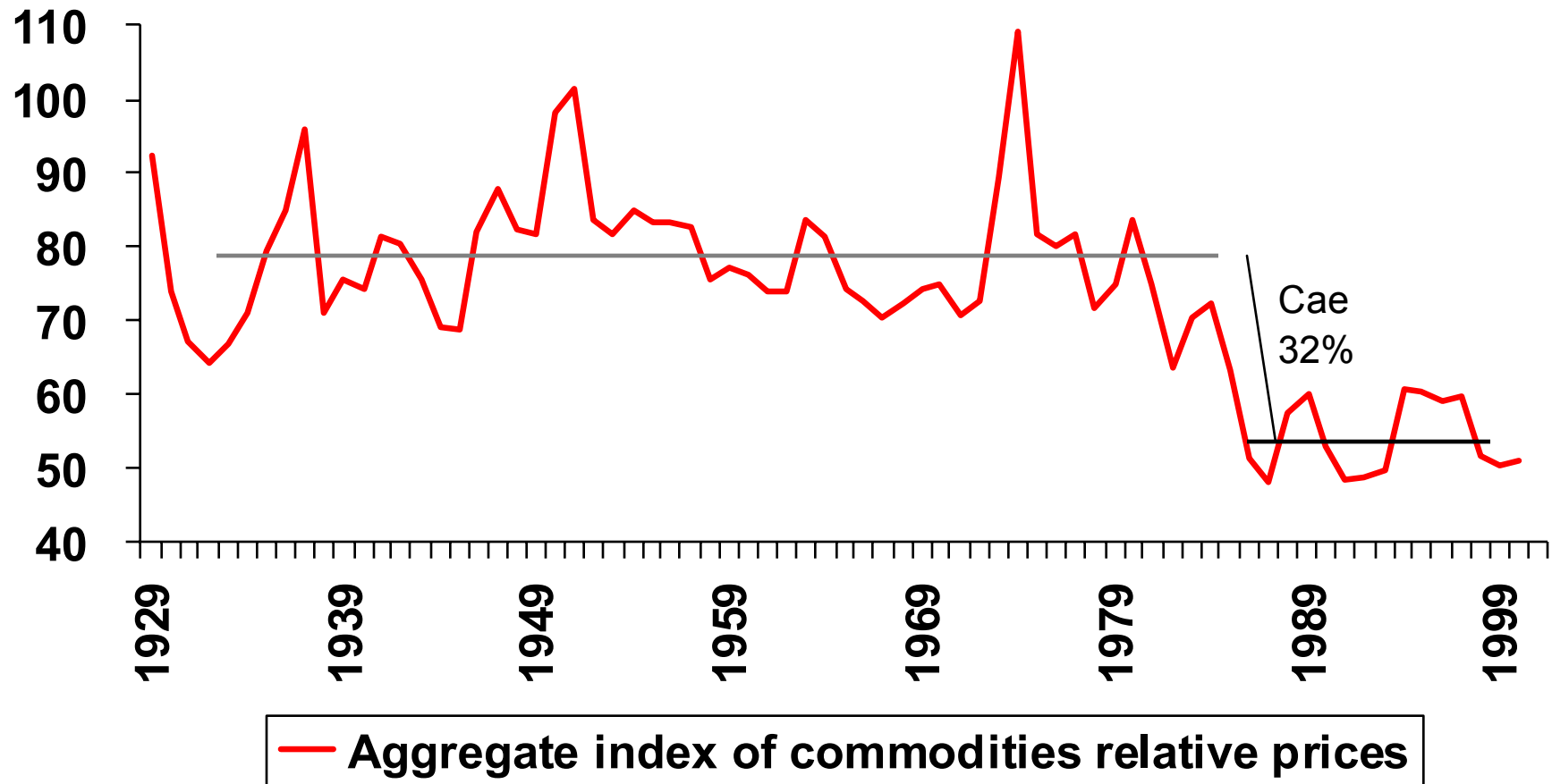


HIGH INTEREST RATES GENERATED AN UNFORESEEN EXPLOSION OF THE EXTERNAL DEBT COEFFICIENT



* External debt as a percentage of exports — External debt as a percentage of GDP

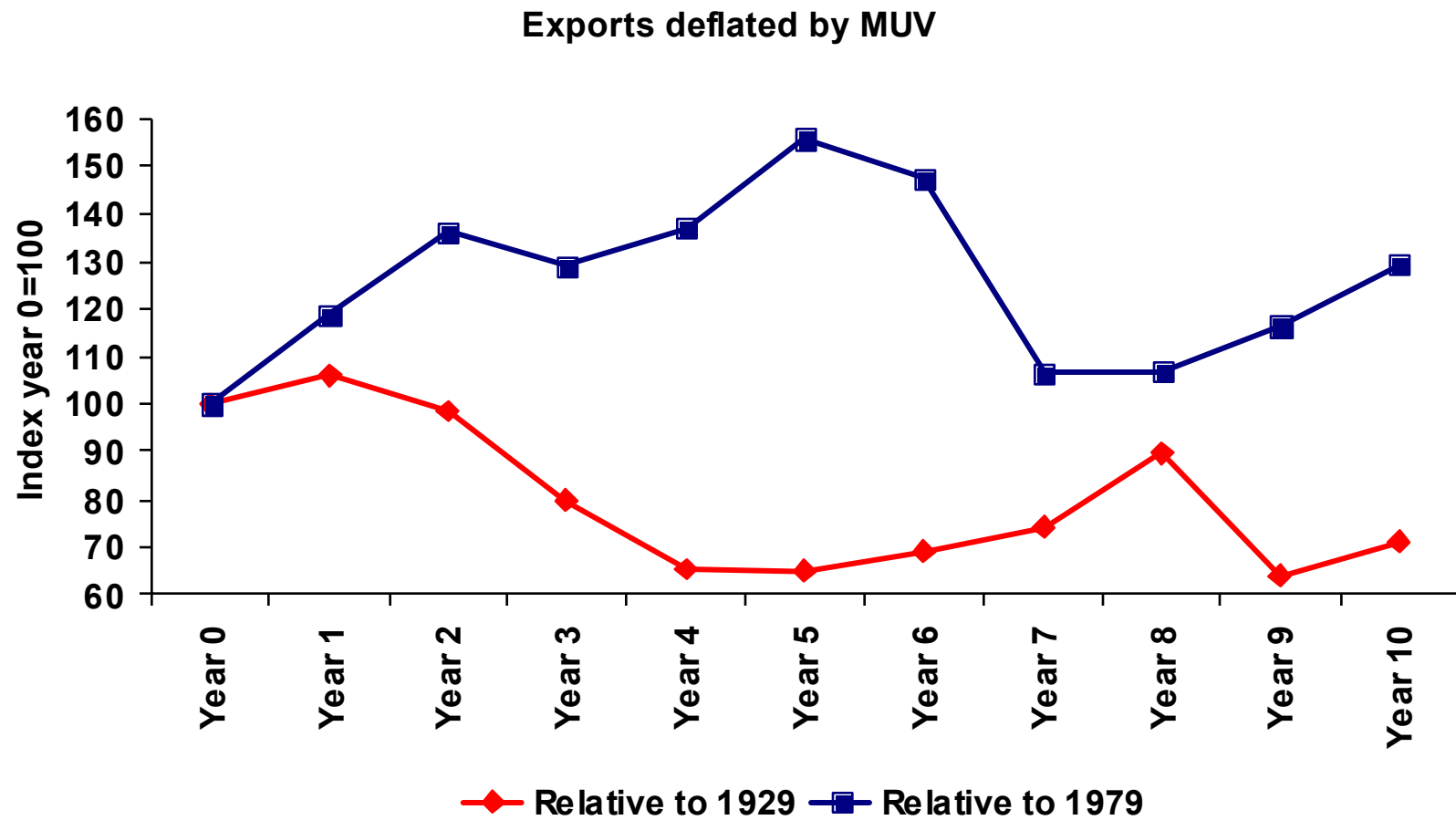
COLLAPSE OF COMMODITY PRICES



THE INTERNATIONAL RESPONSE WAS VERY DIFFERENT:

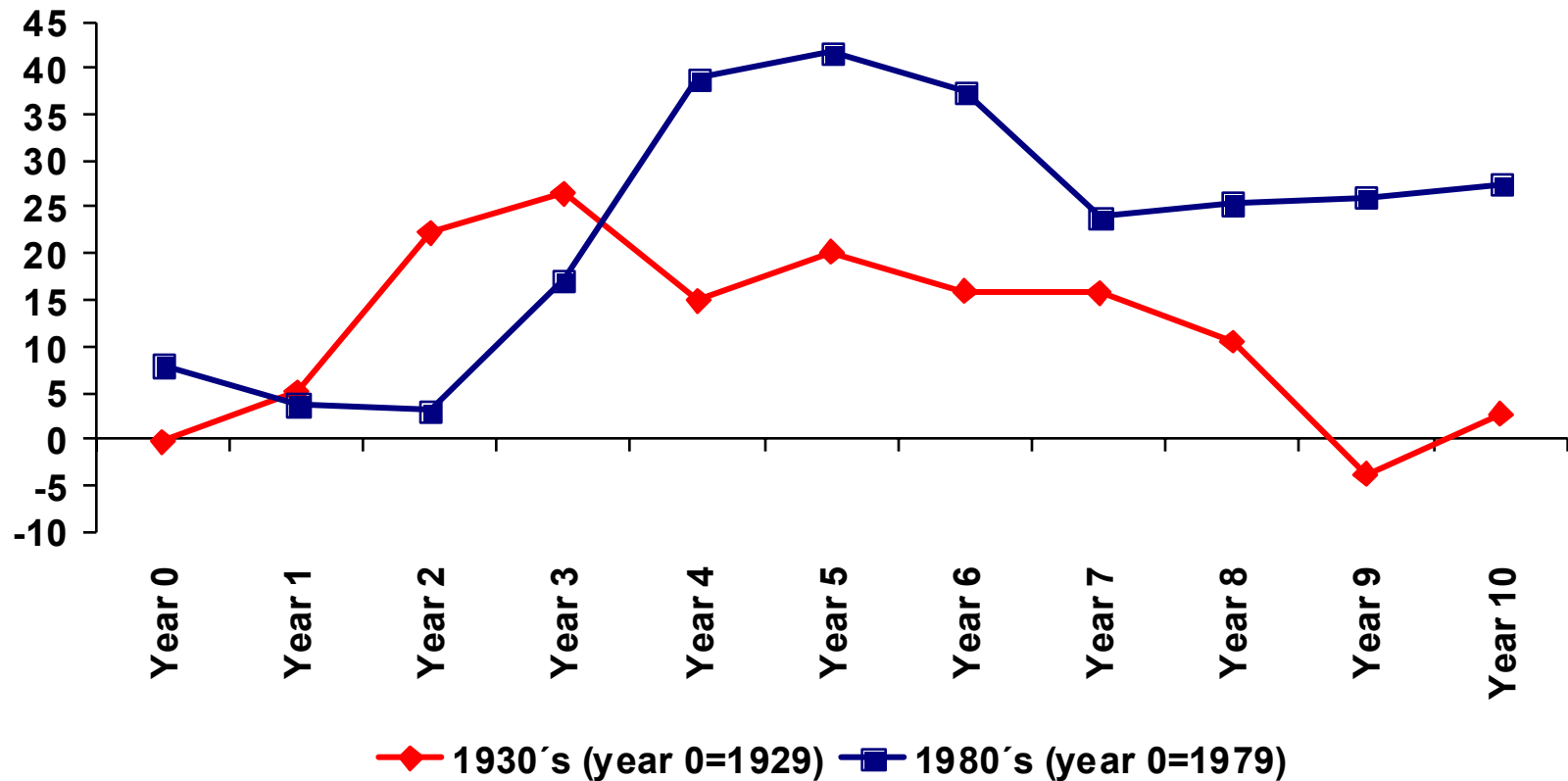
- In the 1930s the moratorium of the debt eased the recovery, and was tolerated by the United States.
- In the 1980s, late and insufficient solutions. Meanwhile, highly conditional financing.

THE 1930s vs. THE 1980s: PURCHASING POWER OF EXPORTS



THE 1930s vs. THE 1980s: TRADE BALANCE AS A PERCENTAGE OF EXPORTS

(minus previous decade average)



“Díaz-Alejandro (1984) summed up the developments as follows:

“what could have been a serious but manageable recession has turned into a major development crisis unprecedented since the early 1930s mainly because of the breakdown of international financial markets and an abrupt change in conditions and rules for international lending. The non-linear interactions between this unusual and persistent external shock and risky or faulty domestic policies led to a crisis of severe depth and length, one that neither shocks nor bad policy alone could have generated”

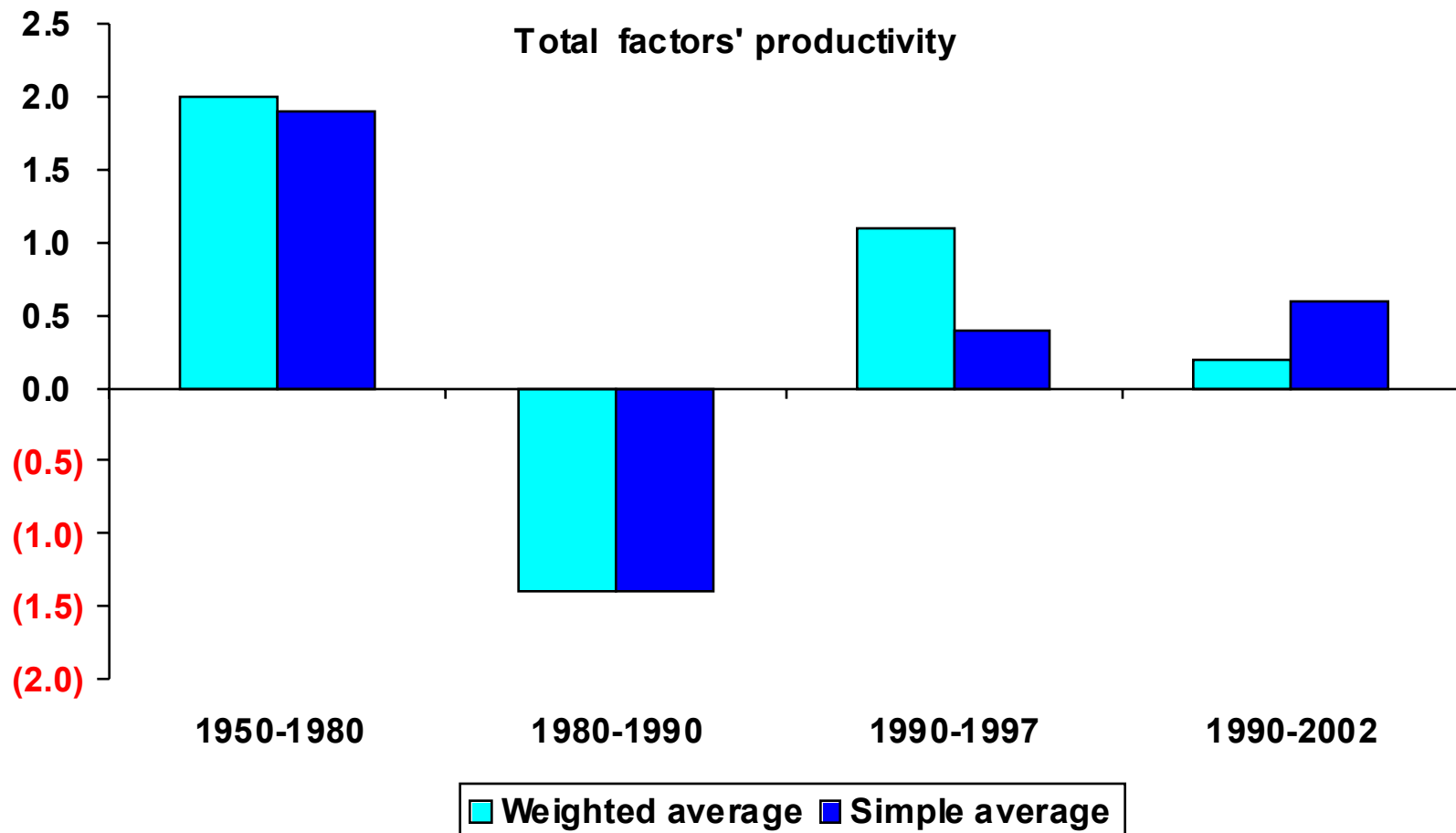
THIRD QUESTION

**WHY WAS THE LATER ECONOMIC
RECOVERY SO FRUSTRATING?**

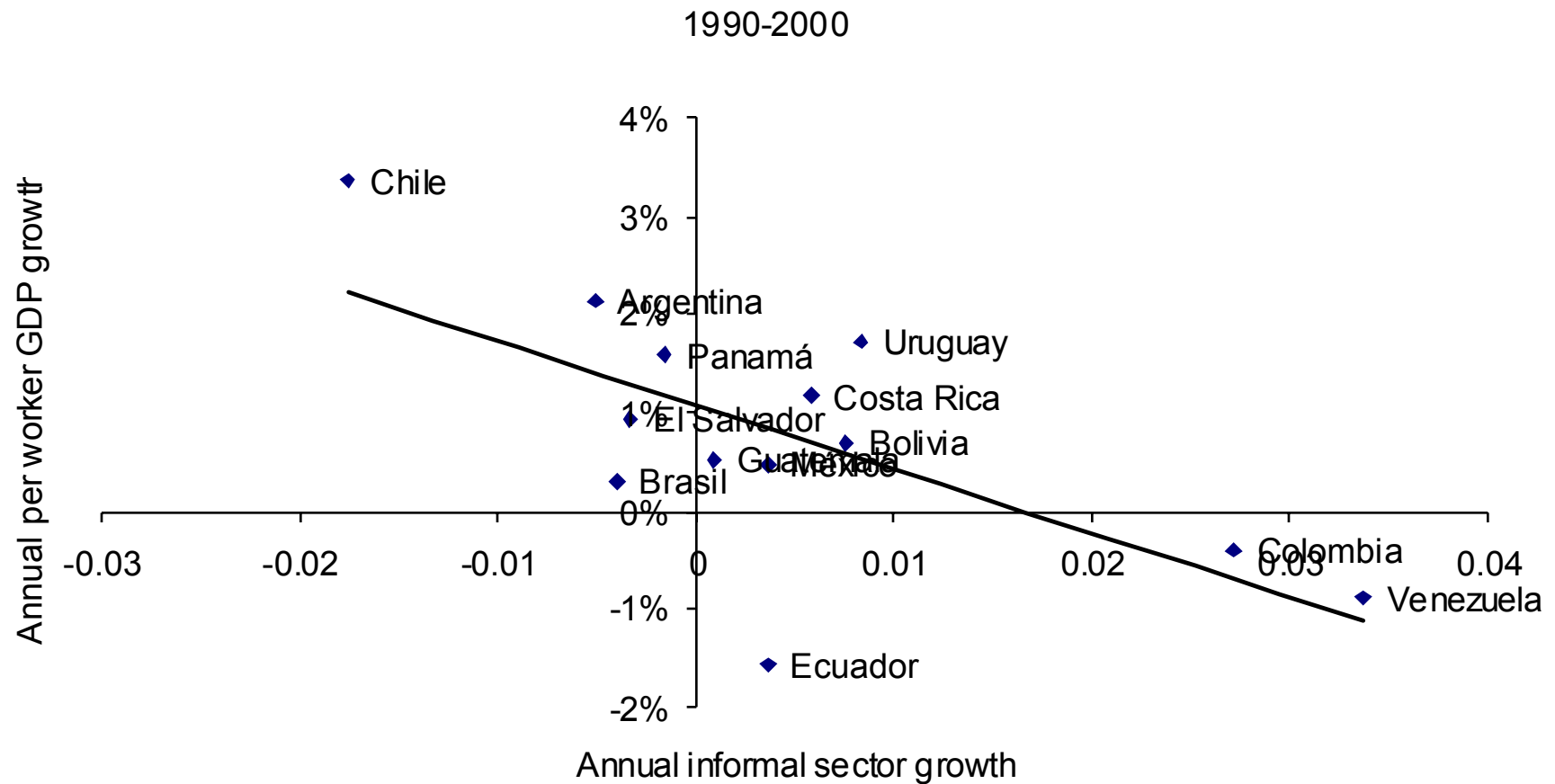
COMMON BUT INACCURATE ANSWERS :

- Emphasis in positive effects of reforms...
- ...but the lack of suitable conditions for the functioning of markets
- Slow productivity growth
- Fundamental problems that these answers do not take into consideration:
 - ✓ Latin America grew satisfactorily before the 1980s
 - ✓ Nothing guarantees full utilization of resources
 - ✓ Economic losses during transition
 - ✓ Static efficiency vs. dynamic efficiency

PRODUCTIVITY GROWTH IS SLOW...



...BUT THIS IS DUE, TO A GREAT EXTENT, TO THE UNDERUTILIZATION OF PRODUCTIVE RESOURCES

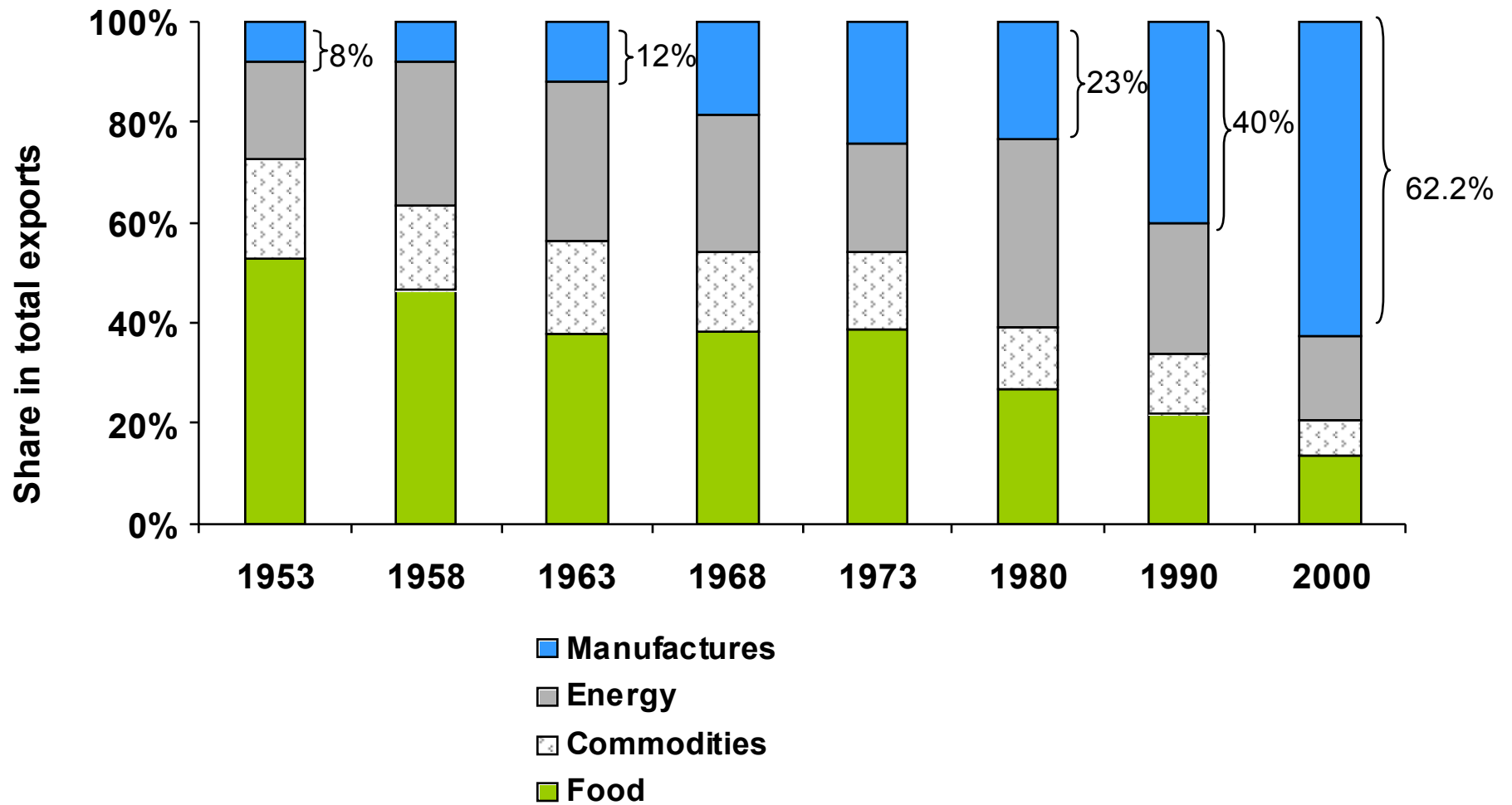


THE GREAT PARADOX:

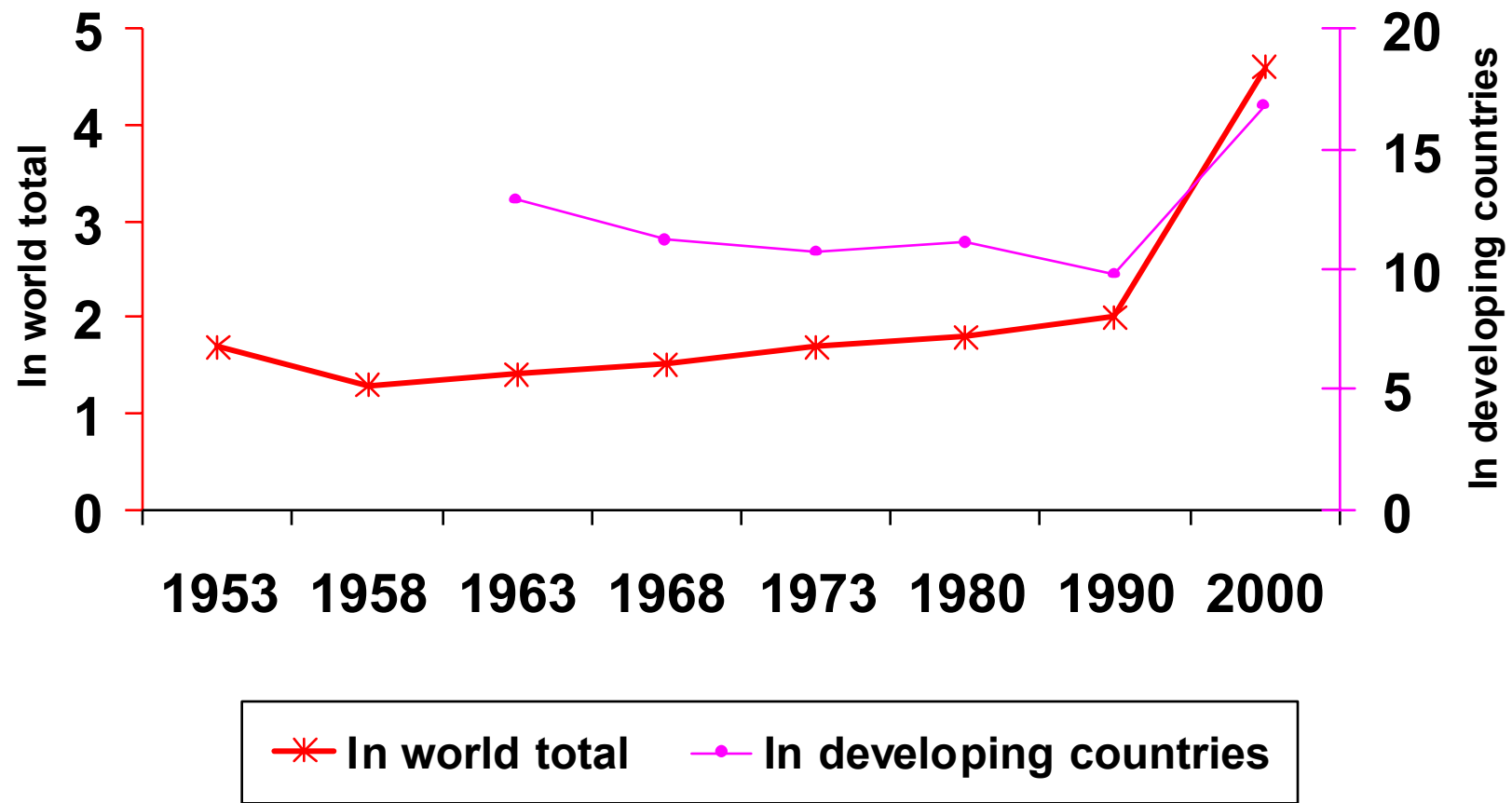
**GREATER INTERNATIONAL
INSERTION IN RECENT YEARS...**

...BUT SLOW ECONOMIC GROWTH

EXPORT DIVERSIFICATION HAS BEEN RAPID



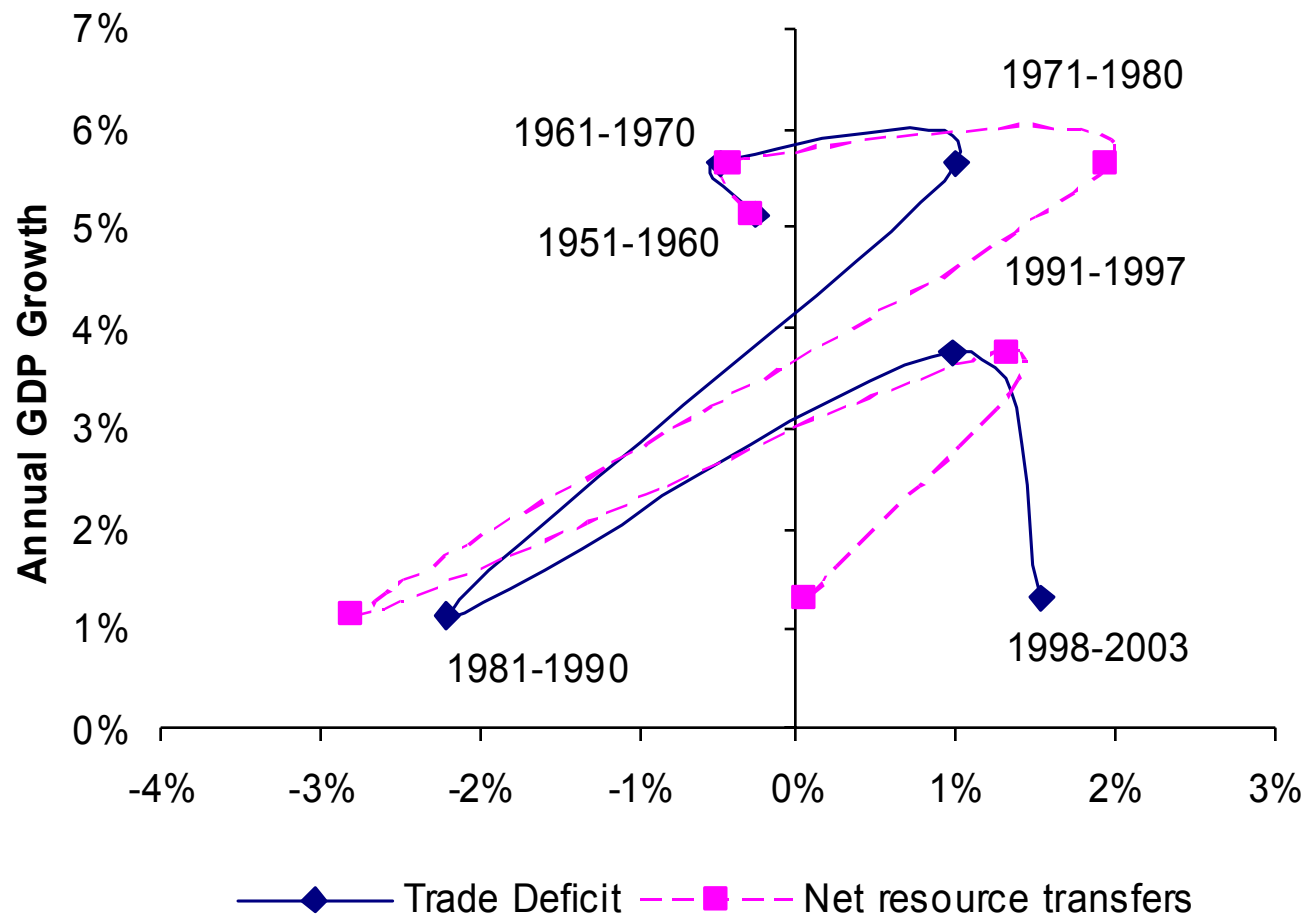
IN PARTICULAR, THE MARKET SHARE IN WORLD MANUFACTURING TRADE HAS INCREASED



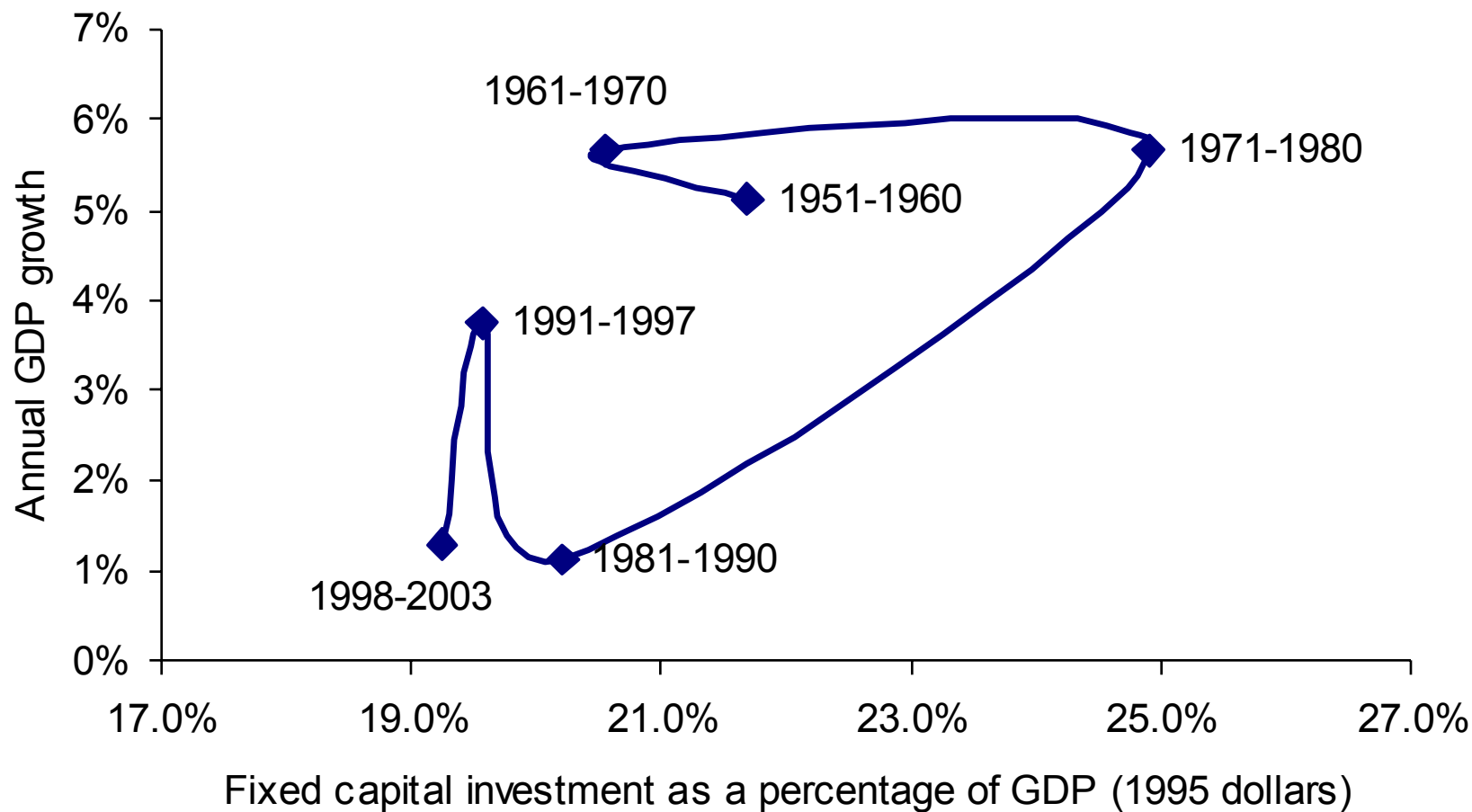
HOW CAN WE EXPLAIN THIS PARADOX?

- Limited production linkages
- In manufactures, new “enclaves”
- In natural resources, limited employment generation
- Deterioration in the trade balance/growth relationship
- This generates greater dependency on external financing...
- ... and, due to the consequent real volatility, low levels of investment
- The constant tendency to currency appreciation during periods of extensive external financing aggravates this problem.

ADDITIONAL DETERIORATION OF THE GROWTH/TRADE BALANCE RELATIONSHIP...



...AND LOW INVESTMENT LEVELS



A MORE GENERAL STRUCTURALIST INTERPRETATION:

- The new model solves in a better way the problem of incentives to economic efficiency...
- ... but this benefit is only static and microeconomic
- The previous model, solved much better the problems of dynamic efficiency in the productive structure of the economy
 - ✓ Creation of new production capabilities
 - ✓ Creation of new production linkages

FOURTH QUESTION

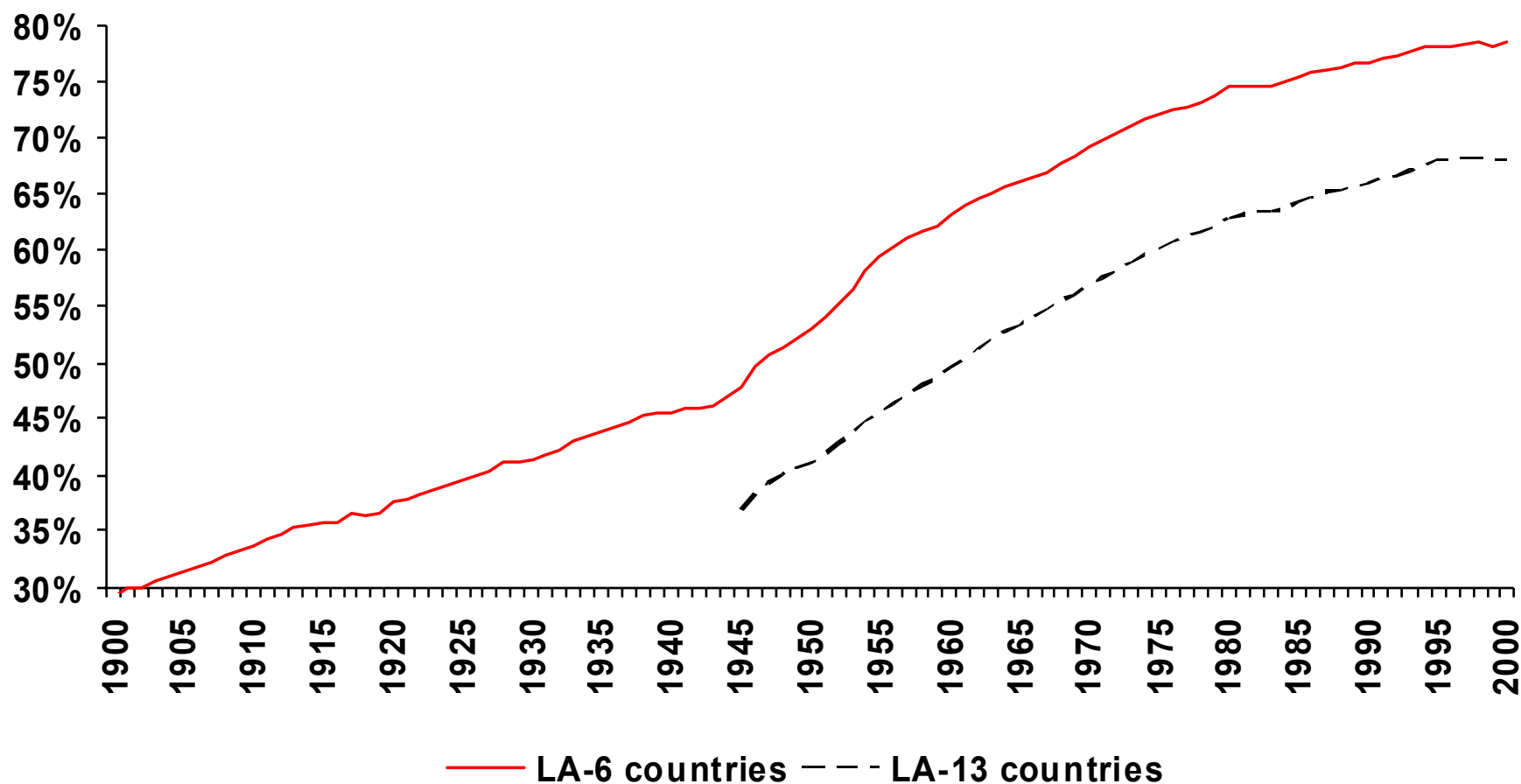
**IS THE MEDIOCRE ECONOMIC
PERFORMANCE ASSOCIATED TO AN
EQUALLY POOR SOCIAL
PERFORMANCE?**

SOCIAL PERFORMANCE IN THE LAST DECADES (1)

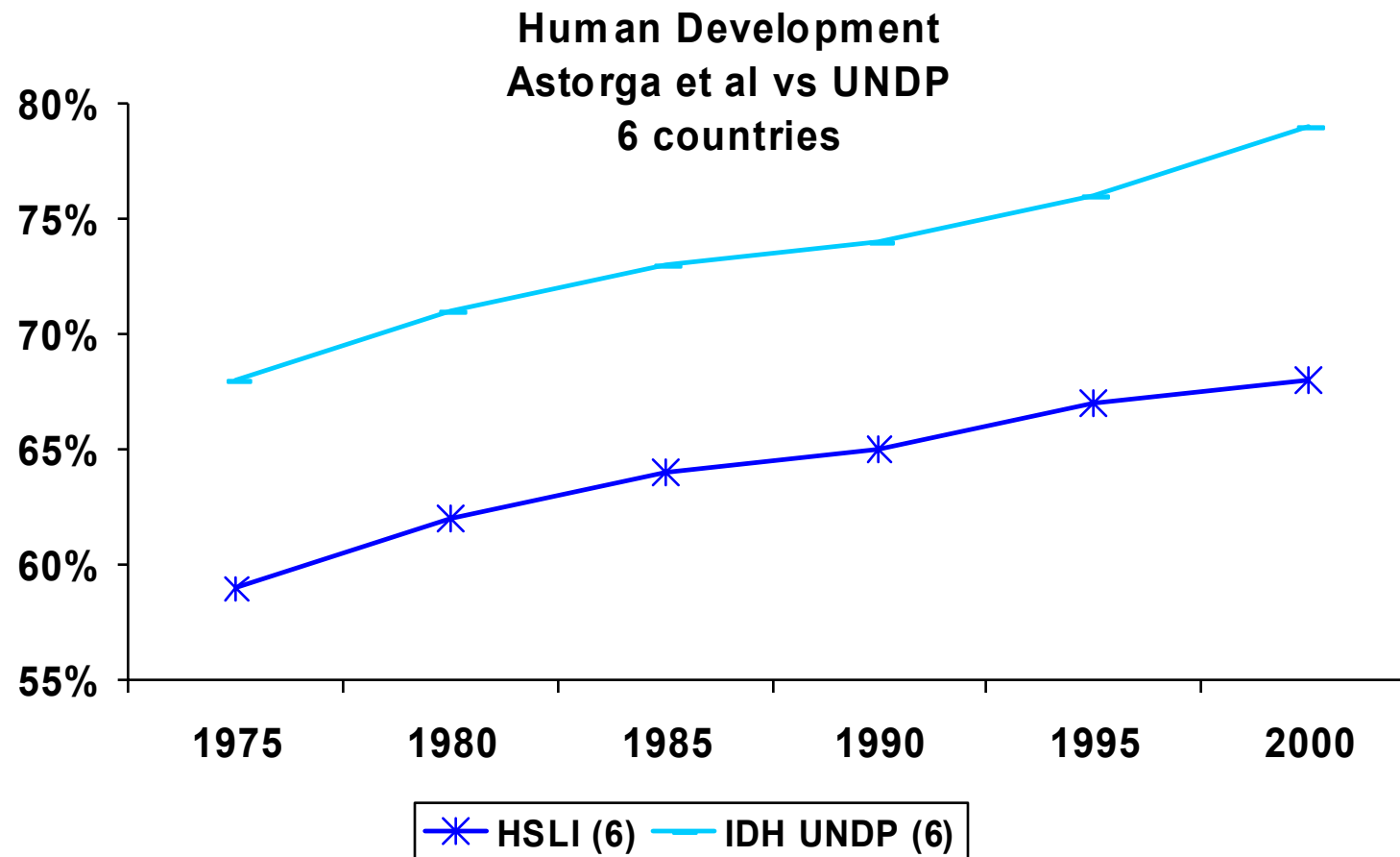
- Human development advance experienced a slow down in the last decades
- However, the majority of the social indicators continued to improve
- In many of them, there was no “lost decade”
- Rather, gigantic underutilization of human capital
- Democracy’s advance has been reflected in an increase of social spending.

THE IMPROVEMENT IN THE QUALITY OF LIFE CONTINUED, ALTHOUGH AT A SLOWER PACE

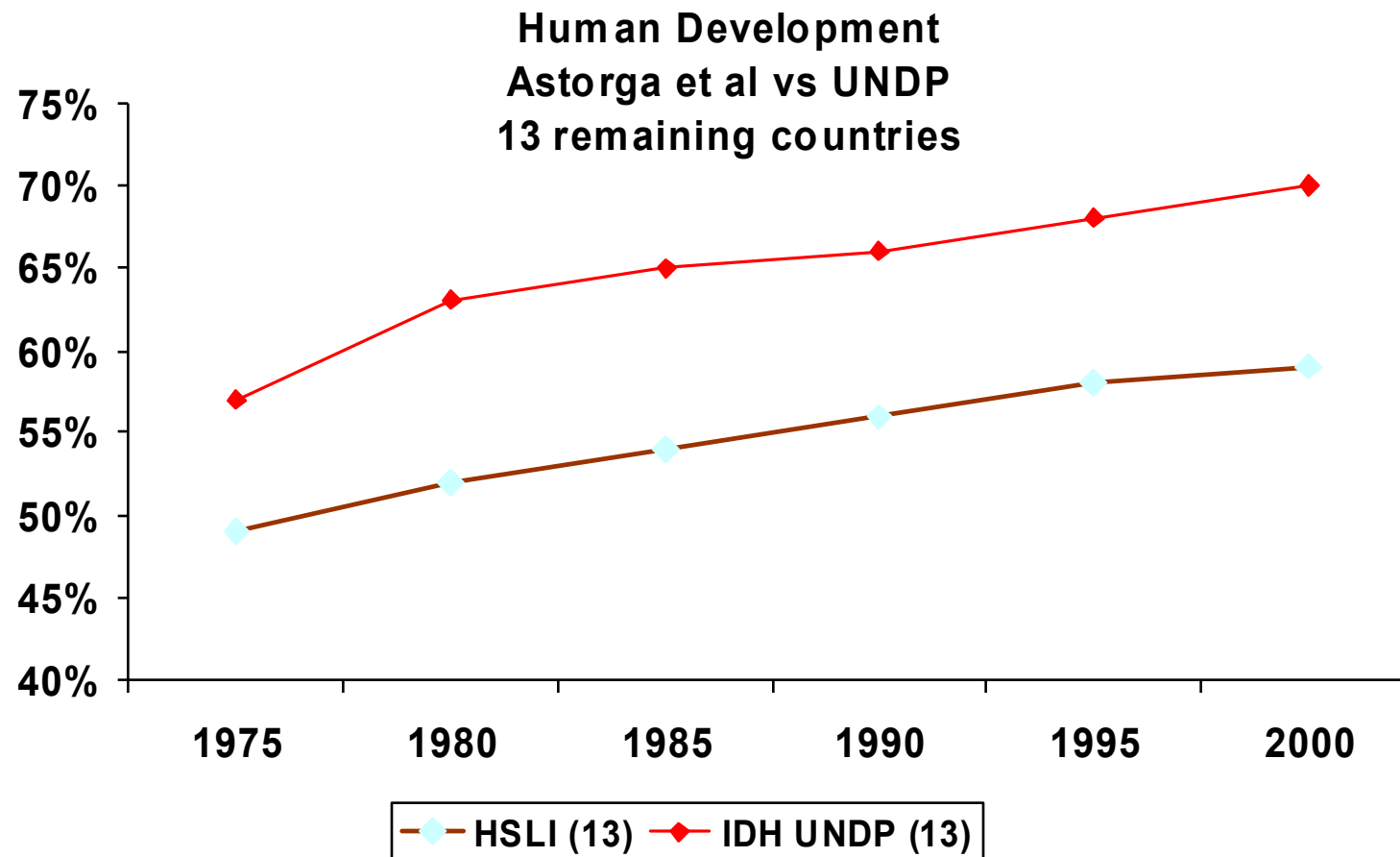
Standard of living Index relative to the United States



RECENT INDICATORS SHOW A FASTER IMPROVEMENT IN THE 1990s IN THE SIX LARGEST ECONOMIES...

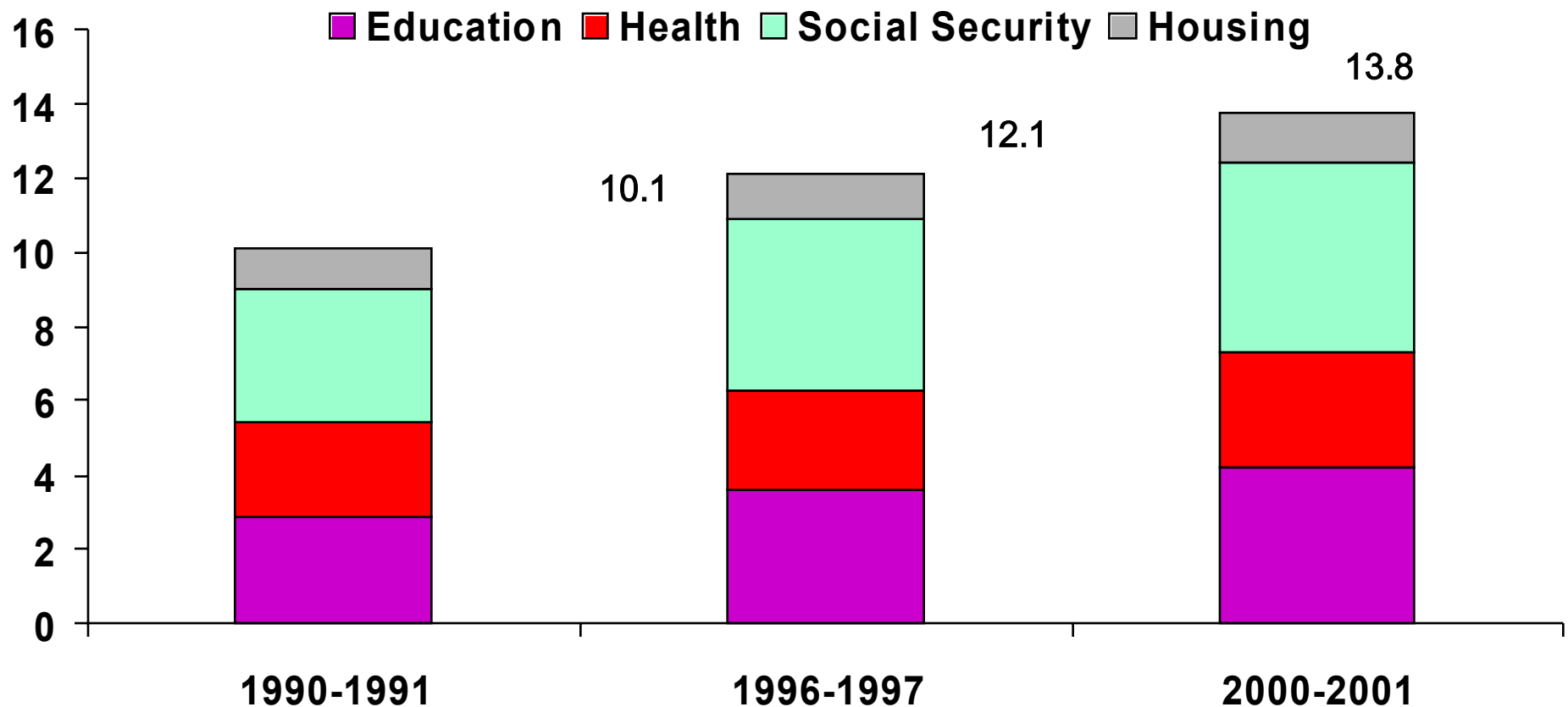


...ALTHOUGH NOT IN THE SMALLER ECONOMIES



THE EFFORT OF THE REGION IN TERMS OF SOCIAL SPENDING HAS BEEN NOTEWORTHY

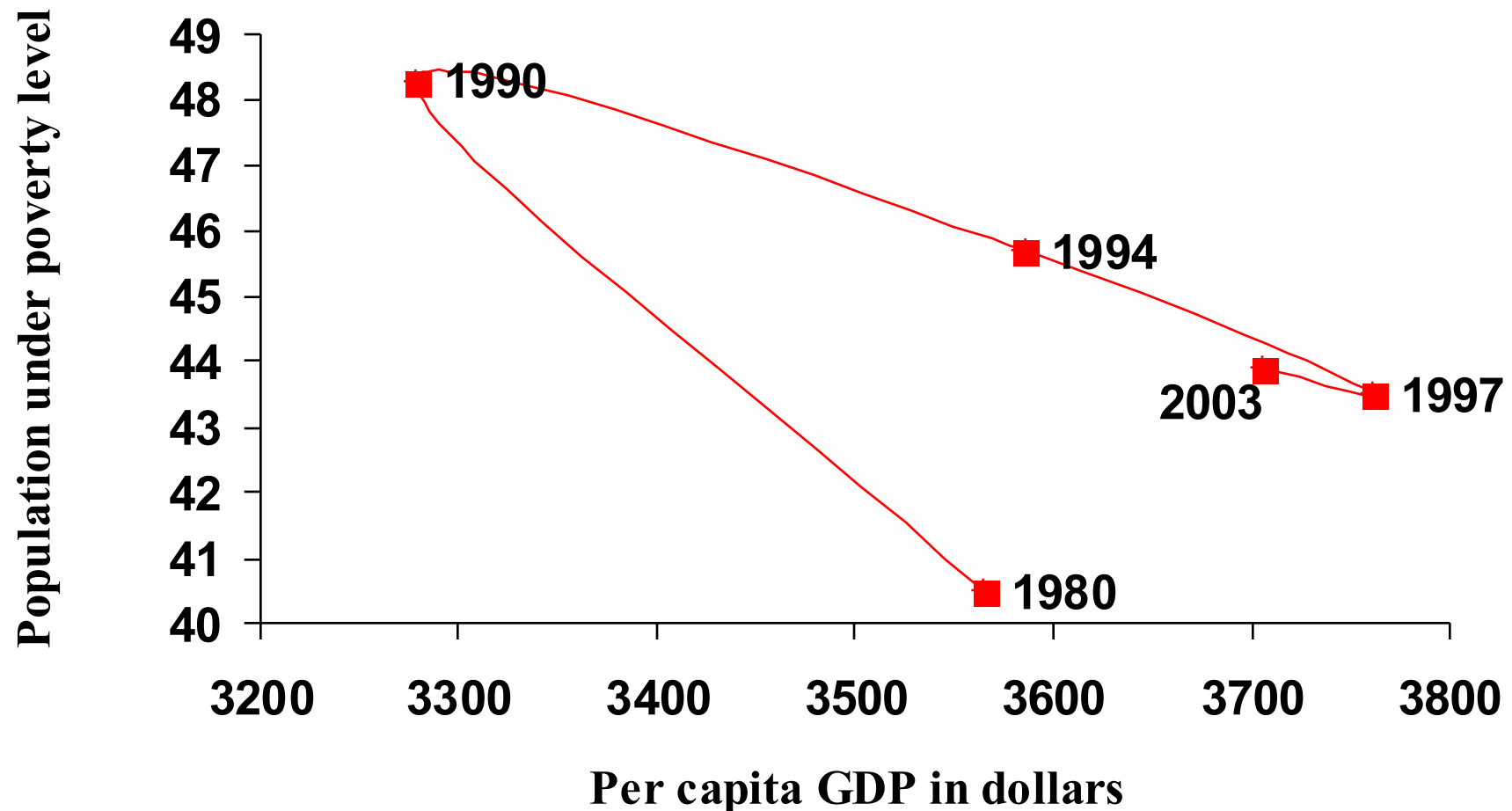
SOCIAL EXPENDITURE AS A PERCENTAGE OF GDP



SOCIAL PERFORMANCE IN THE LAST DECADES (2)

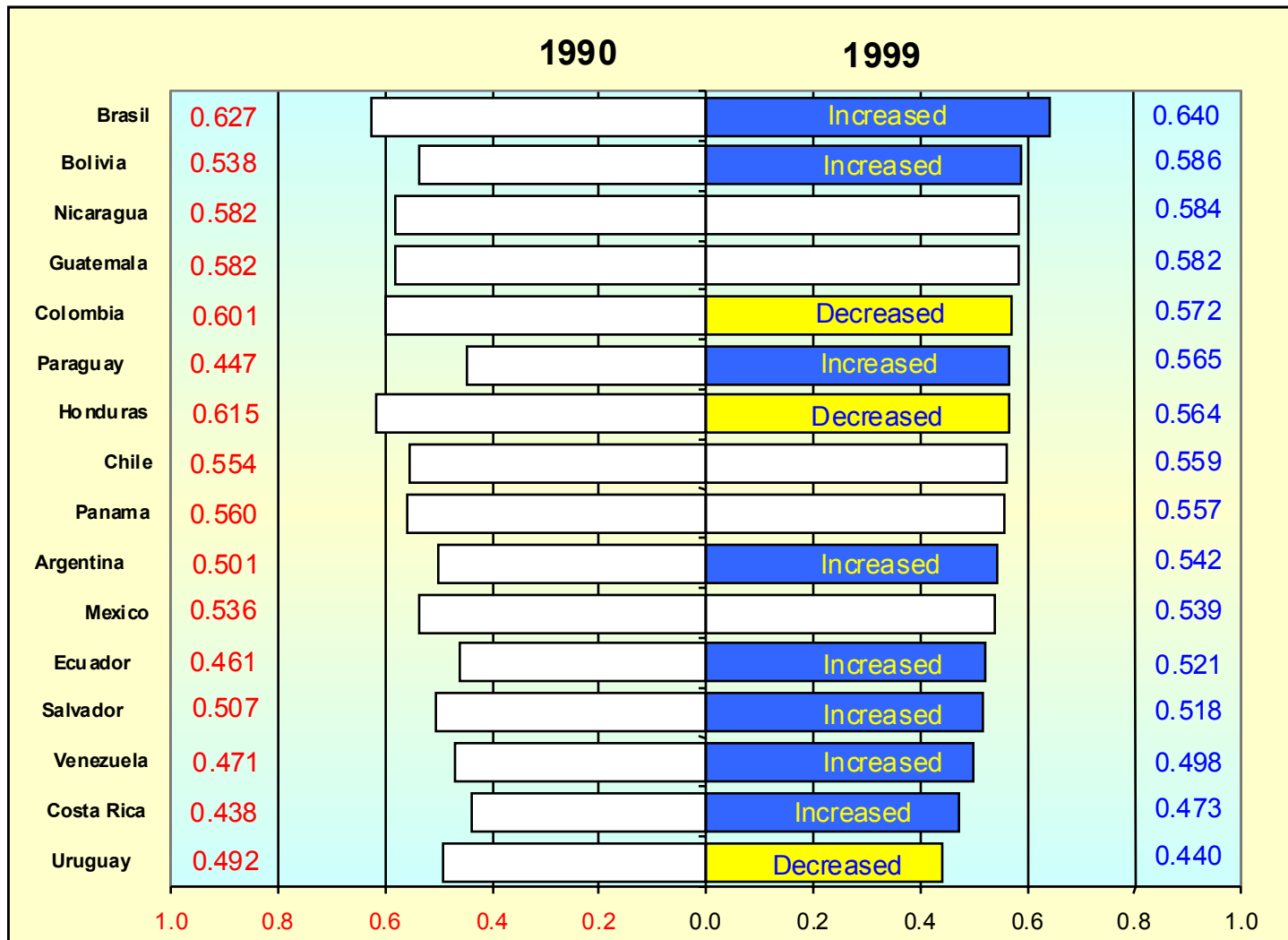
- The main problems dwell in the connections from the economic to the social system
- Additional distributive deterioration...
- ...on already very high levels of social segmentation
- Current social policy can help to fight poverty...
- ...but inequality remains outside the agenda
- Inequality might be becoming a development trap

THE POVERTY-PER CAPITA GDP RELATIONSHIP HAS DETERIORATED COMPARED TO 1980



INCOME DISTRIBUTION HAS WORSENE IN SEVERAL COUNTRIES

CHANGES IN INCOME DISTRIBUTION'S GINI COEFFICIENT, 1990-1999



THE POLICY AGENDA

- More emphasis on the economy's real stability
- Productive development strategies for open economies
- Improve the social linkages of the economic system

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