

**Multi-year Expert Meeting on Enhancing the Enabling
Economic Environment at all levels in Support of
Inclusive and Sustainable Development**

**Session 1 - The world economy: recession or
transformational growth challenges?**

The case of Latin America

**UNCTAD, Palais des Nations,
Geneva, April 16-17, 2013.**

Humberto Campodonico

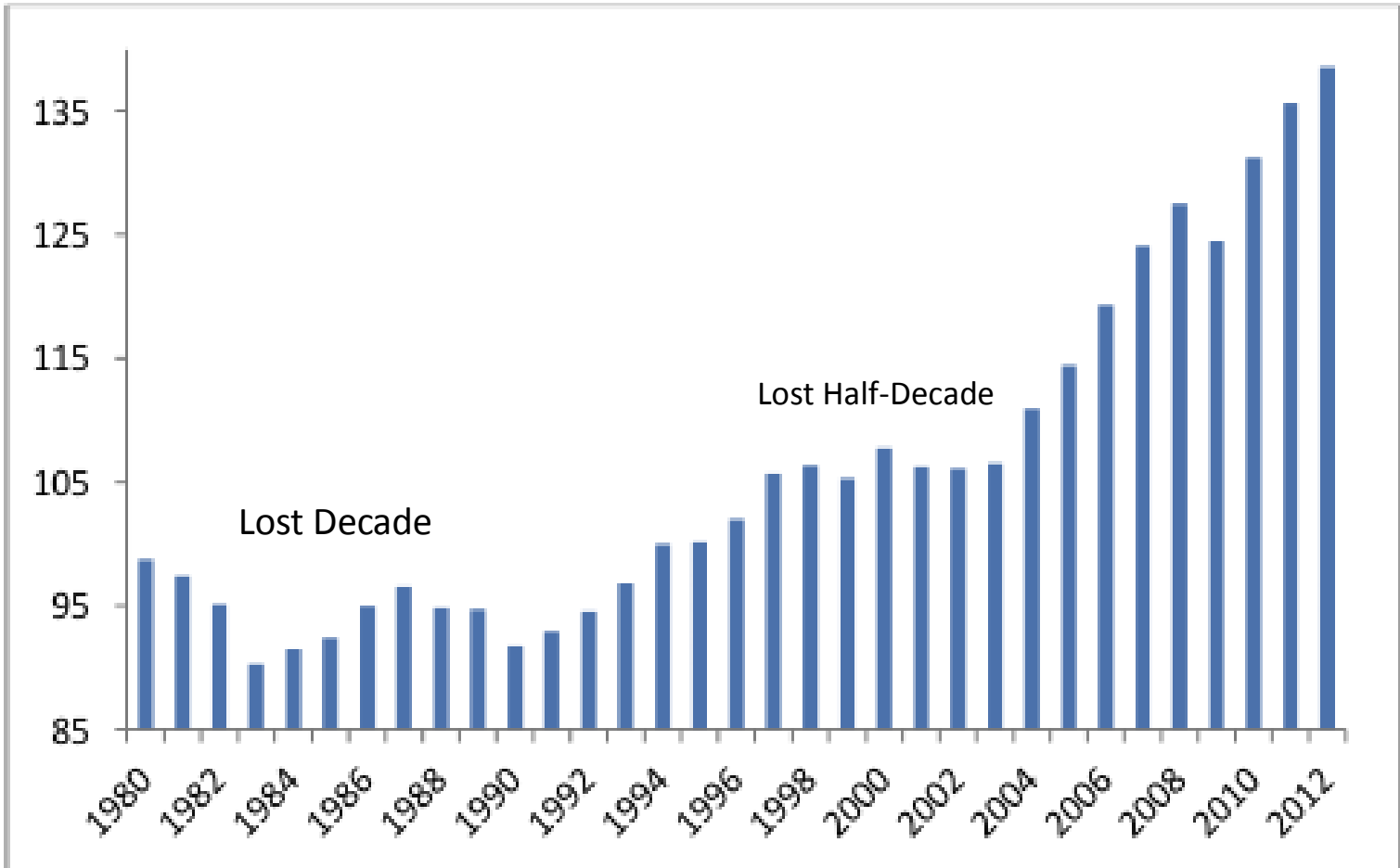
National University of San Marcos, Peru

Presentation Outline

- How are we growing?
- What are our exports?
- How should we grow? Middle Income Trap?
- The importance of integration and South-South Trade. Can it be done?
- External sector: an overall package
- Tax Reform, Social Programmes, Preservation of the Environment, Development Banks

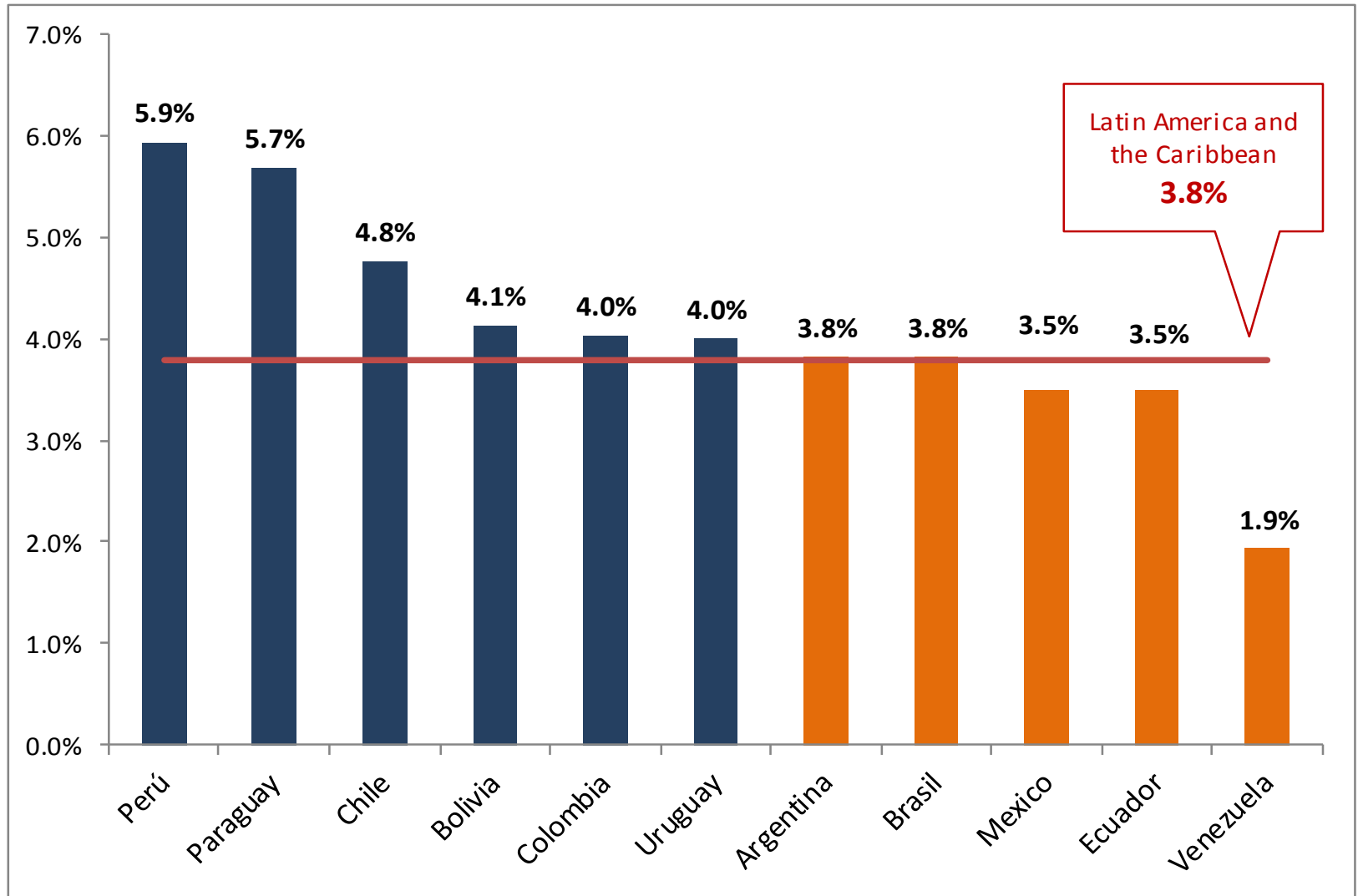
LAC: GDP growth percapita 1980 - 2012

(1994=100)



Source: IMF

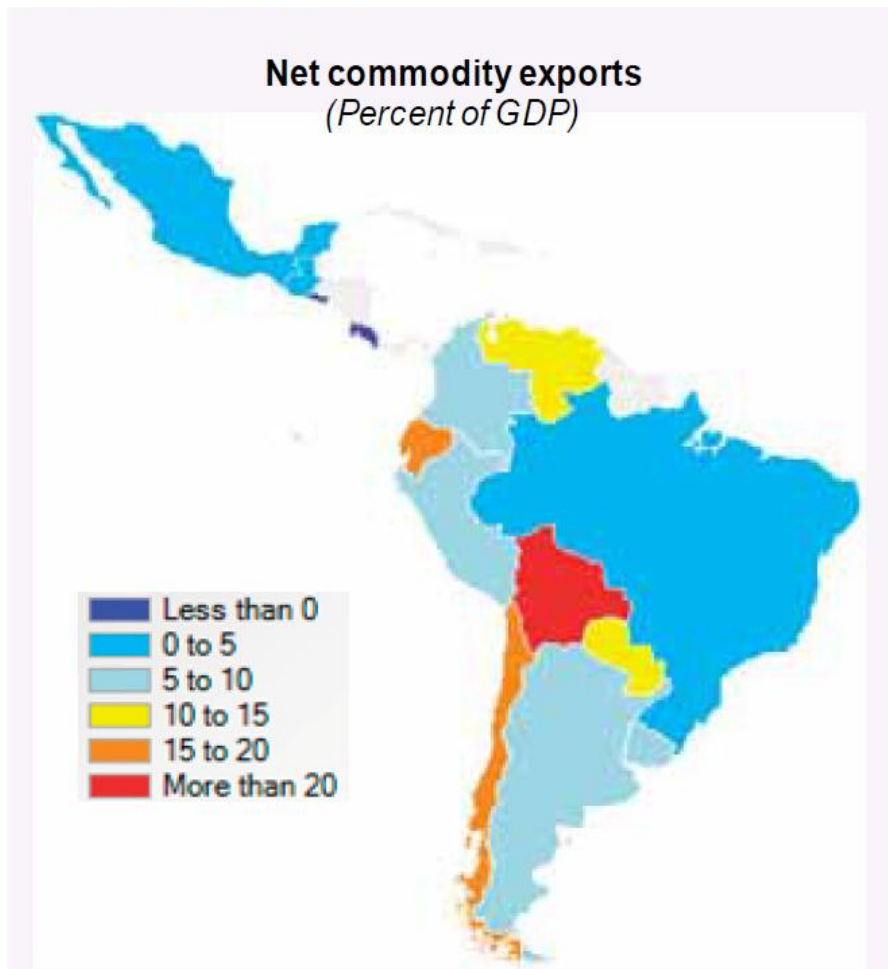
World Bank, Latin America country forecasts 2013 - 2015
GDP at market prices, % annual growth
Global Economic Prospects 2013



Commodity Dependence

Commodity Dependence and Export Diversification in Latin America, 2010

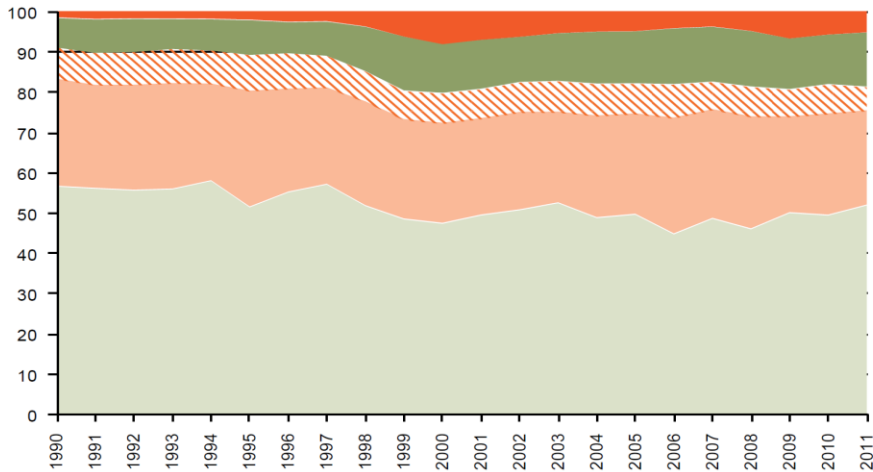
IMF, Regional Economic Outlook, Oct. 2011



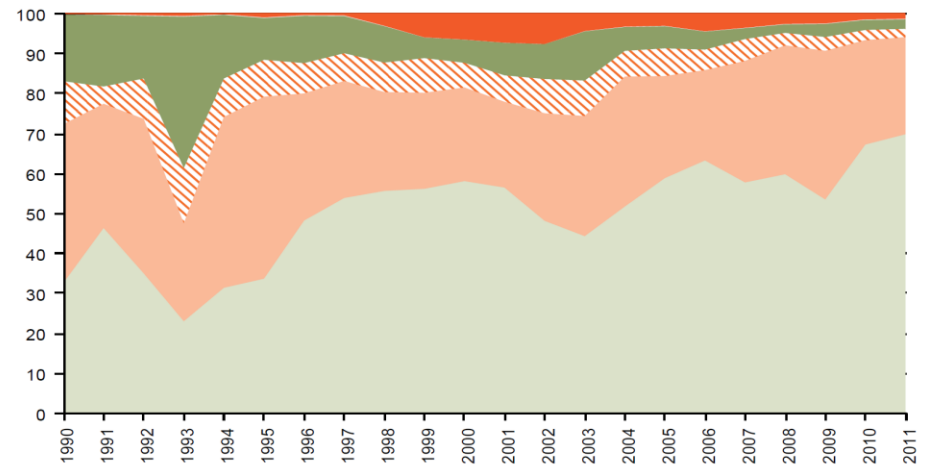
ECLAC, Composition of exports LAC by technological content: 1990-2011 – (in percent)

Primary Products in gray.

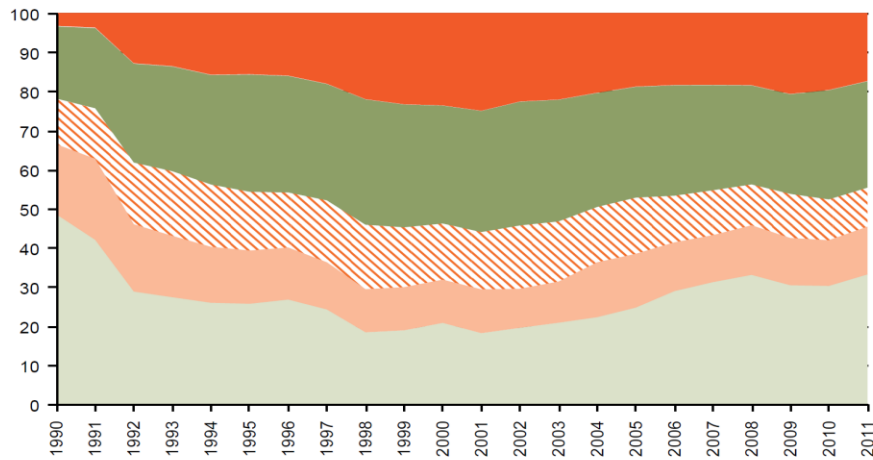
A. Unión Europea



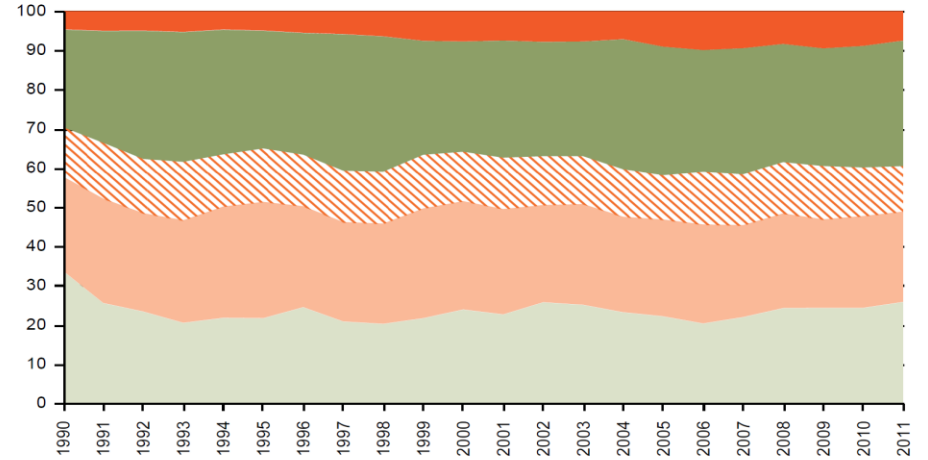
B. China



C. Estados Unidos



D. América Latina y el Caribe

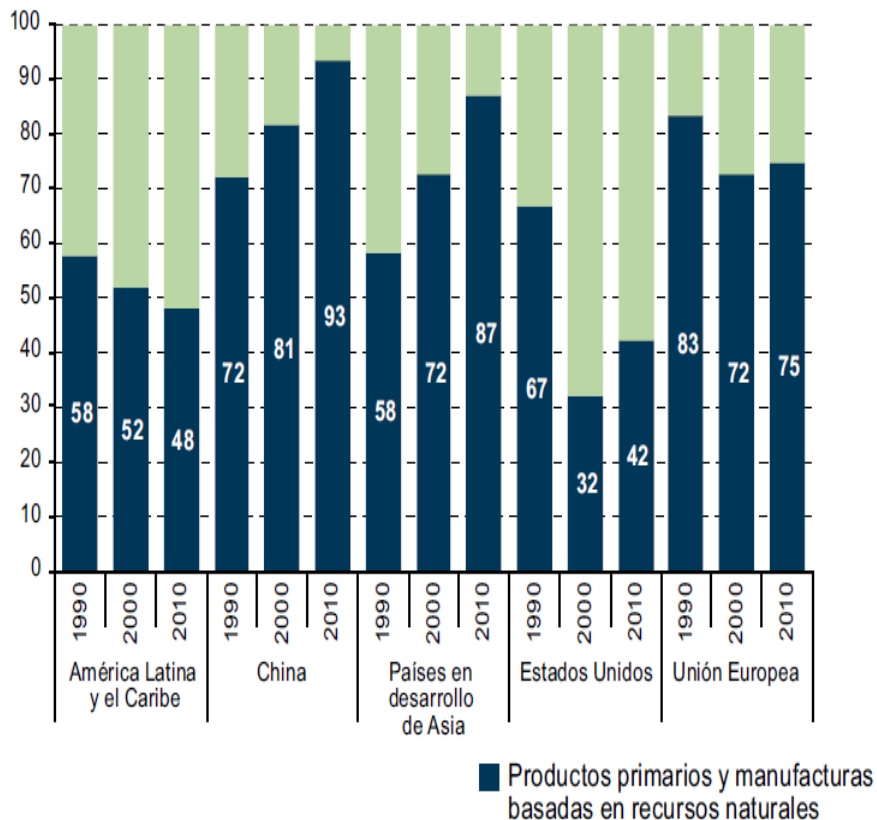


Productos primarios
 Manufacturas basadas en recursos naturales
 Manufacturas de tecnología baja
 Manufacturas de tecnología media
 Manufacturas de tecnología alta

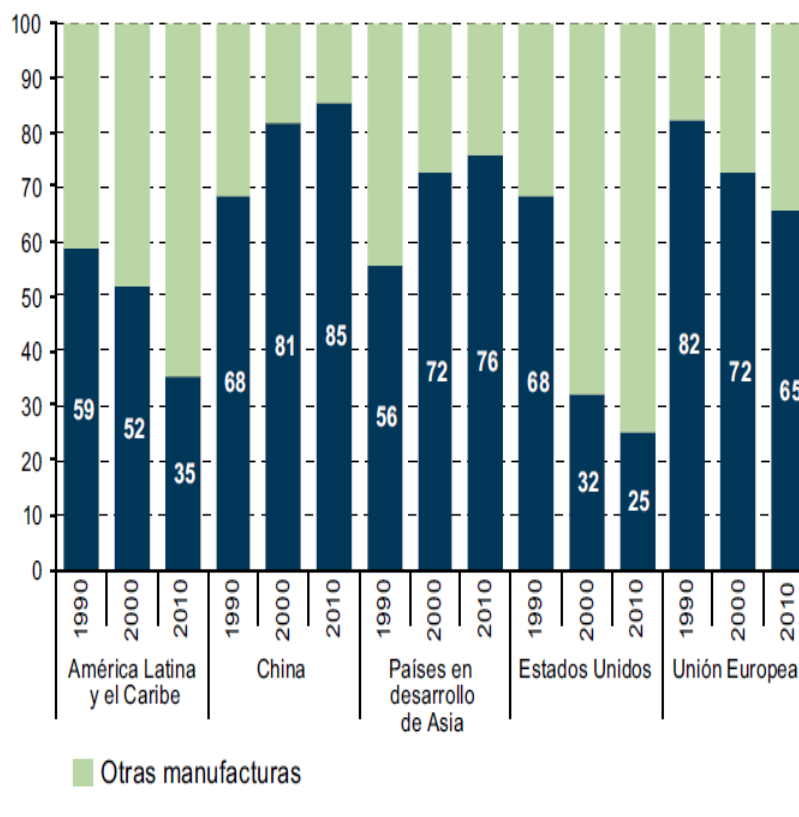
LAC: Structure of Exports of Goods (Commodities and Other Manufactures), by destination

AMÉRICA LATINA Y EL CARIBE: ESTRUCTURA DE LAS EXPORTACIONES POR TIPO DE BIENES SEGÚN DESTINO, 1990, 2000 Y 2010
(En porcentajes del total exportado)

A. Valores corrientes



B. Valores constantes de 2000



Orthodox Export-led Growth (OELG)

The addition of the adjective —orthodox- to the concept of **Export-led Growth** is meant to differentiate the strategy followed by the majority of LACs from that **which is equally export-led** but involves active State intervention, which has been more characteristic of East Asia, and notably China in recent decades.

With national variations, such interventions include industrial policies (or, more broadly, production sector policies, as they do not always focus narrowly on manufacturing), active technology policies, strategic trade interventions, some selectivity in the attraction of foreign direct investment (FDI) and the support to the expansion abroad of domestic firms.

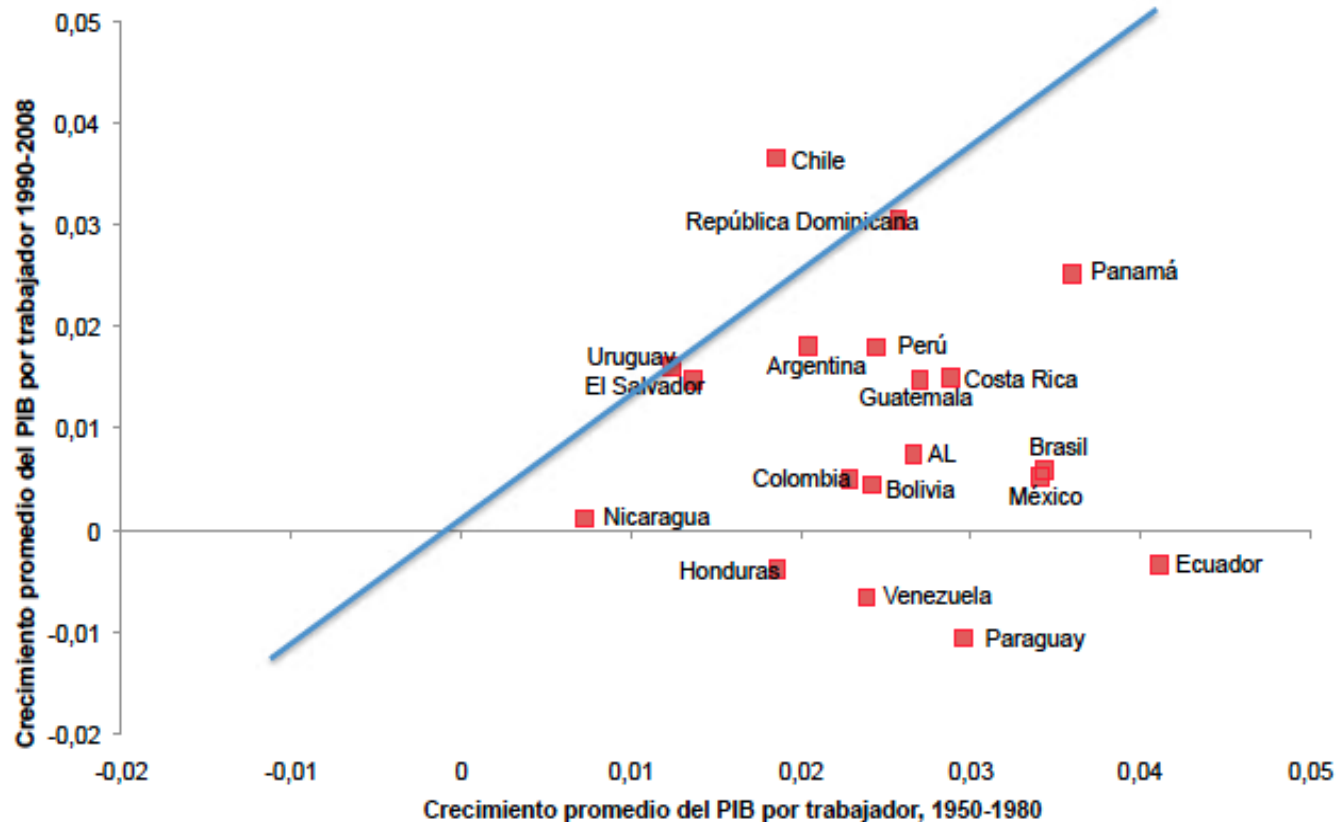
Such interventions can be said to focus mainly on improving export —quality , meaning by this concept the technological contents and domestic value added of export activities.

So, the essential feature of OELG followed by LAC is that such objective is generally absent and it relies much more on market forces to guarantee dynamic economic growth. This strategy was proposed as the alternative to the perceived inefficiency associated with State-led industrialization, which in the view of the reformers had been blocking not only static efficiency but also technical change and, thus, economic growth.

Productivity and OELG

- In terms of productivity growth, the OELG ignored the fact that there is a link between growth and production structures, associated to the very different technological content of alternative economic activities.
- It also ignored that, although access to foreign capital and intermediate goods may enhance the competitiveness of export activities, the strength or weakness of *domestic* linkages matter in terms of the multiplier effect of orthodox export growth.
- In other words, low technological content and domestic value added led to poor export quality and to weak linkages between export and GDP growth.
- This is in sharp contrast with East Asia, where exports have a rising technological content and are part of a regional technology cluster, so that even if the local contents in a specific location is low, the regional contents is high.

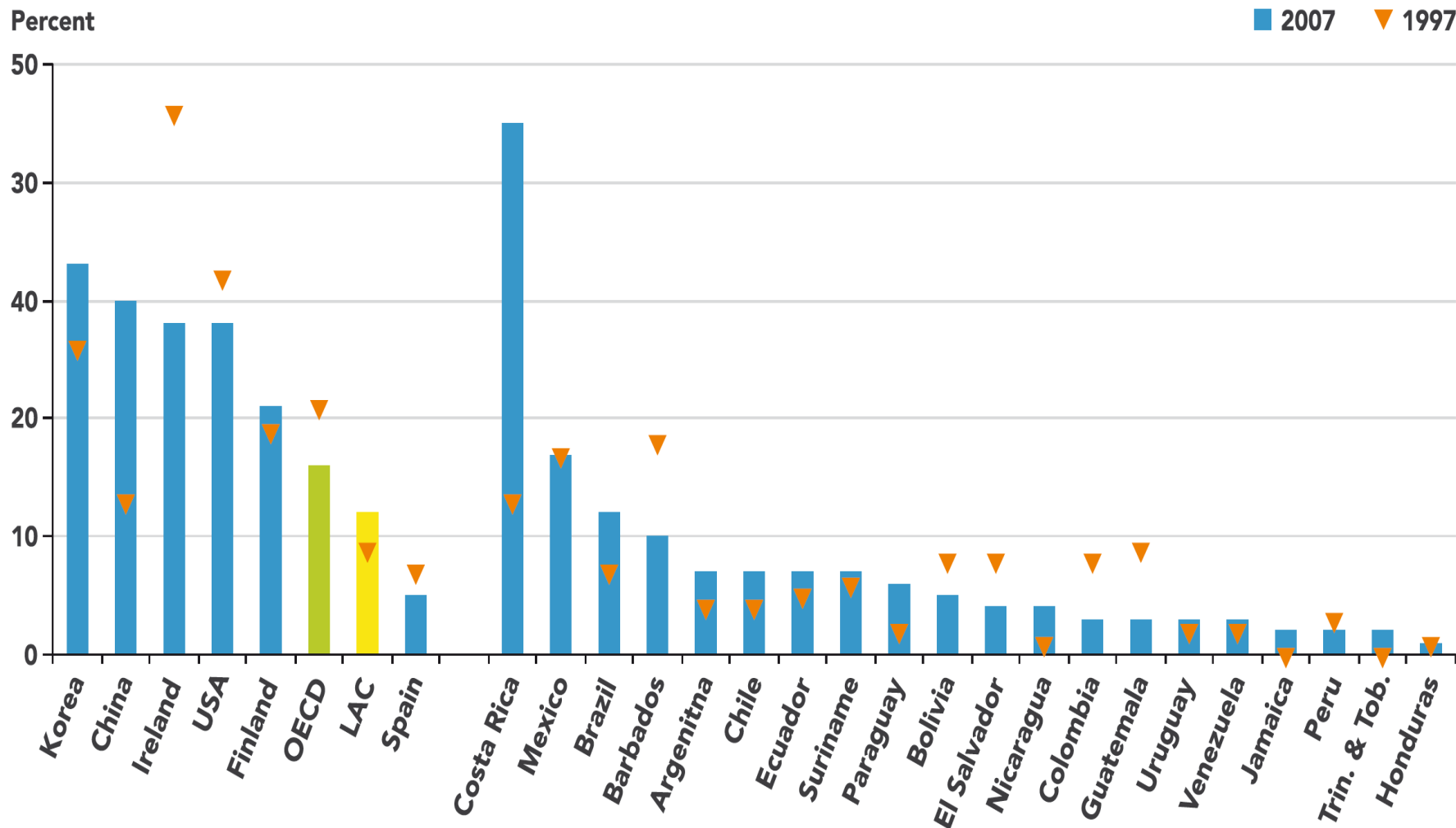
Labor Productivity: 1990-2008 versus 1950-1980



Fuente: Series históricas de la CEPAL. Población económicamente activa: 1950-1980 según OIT; 1990-2008 según

IDB: The imperative of innovation, 2011

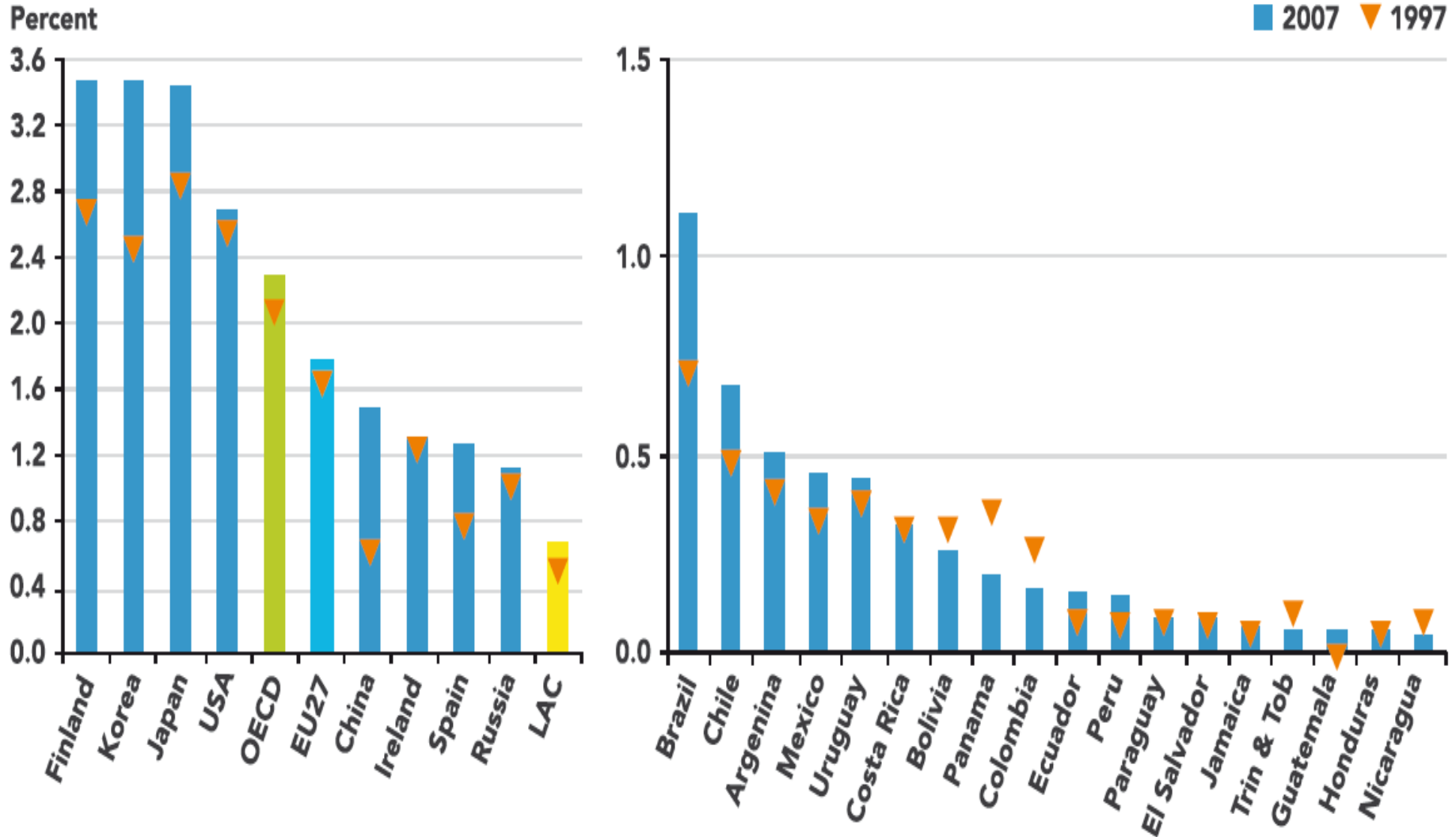
High Technology Exports (as % of Manufactured Exports) 1997 and 2007 (or Latest Available)



Source: World Development Indicators.

Notes: Latest available data for Suriname are 2001, and for Chile, Costa Rica, Guyana and Venezuela are 2006. Data for LAC and high income OECD countries (referred to as OECD in the figure) are provided in the WDI database.

R&D Expenditure as a % of GDP 1997 (or Nearest Available) and 2007 (or Latest Available)



Sources: OECD Main Science and Technology Indicators 2009-1; (MSTI) and RICYT.

Premature de-industrialization of LAC?

- The problems generated by Latin America's patterns of specialization in inducing poor growth and productivity performance are now clear. The associated problems include a premature de-industrialization and abandonment of production sector policies.
- The region specialized according to its static comparative advantages in sectors that offered fewer opportunities for diversification and improvements in product quality.
- As ECLAC has illustrated, the technological gap widened, not only in relation with the dynamic Asian economies, but also with the more developed natural-resource-intensive economies. This is reflected in a lower share of engineering-intensive industries, the meager resources used for research and development, and a near absence of patenting in relation to these groups of economies.

Production (includes industrial) Policies and Export Diversification

Perspectives

- There is, therefore, a need to return to more active production sector strategies. It is true that these policies involve risks of failure and rent seeking, but these problems are not unique to them. Developing such new activities is a learning process in which “winners” are in a sense created rather than chosen ex ante.
- The new activities that should be promoted depend on domestic capacities, must be done in close partnership with the private sector, and should have technological upgrading as the central criteria. And they must be accompanied by competitive exchange rates. **This is the component that has been missing in the only country that has recently returned to active production sector strategies: Brazil.**
- Needless to say, the need for a clear attention on technological upgrading is critical, given the prospects of lack of dynamism of world trade and the clear evidence that Latin America has ceased to be a region of abundant low-skilled labor.
- **The development implications of external integration in Latin America, Jose Antonio Ocampo, 2012.**

Going Beyond Sectors is Essential

- Overcoming that deadlock means changing the structure of relative profitabilities in favor of knowledge-intensive sectors, a result that can only be obtained through policies oriented to achieve a progressive structural change, ie industrial policies aimed at creating new sectors, be they manufacturers, primary or services.
- These policies are a necessary component of development that takes into account and goes beyond competitiveness policies that seek to improve the efficiency of existing sectors. ***Going beyond existing sectors is essential*** to promote more efficient sectors in materials and energy, and promote activities with higher knowledge content.
- ECLAC: Structural change for equality, An integrated vision of development, Santiago 2012

Agosin, ECLAC Review # 97, April 2009

- Countries that export products that are related to the export profile of high-income countries tend to converge quickly to these higher income levels and, therefore, grow faster. One might add that generally low-income countries have a comparative advantage in a few products, and sometimes only in one.
- It is likely that efforts to achieve diversification that departs from traditional comparative advantages can start the growth process. Only by diversifying production and exports will the spills -vertical or horizontal- of new exports begin.

Everyday Worries, April 2013

La República, Elmer Cuba
Middle-Income Trap?

AMERICA ECONOMIA
WHY WE WILL NEVER BE RICH,
Trapped by its productive model,
Latin America moves without advancing

Pais | Economía

La República
Martes, 9 de abril del 2013 | 15



ENCUENTRO. Humala y Yu Zhengsheng, presidente del Comité Político del Pueblo Chino.

Gobierno busca atraer más inversiones chinas para sectores estratégicos

OPORTUNIDADES. Presidente Ollanta Humala promueve ante empresarios chinos las oportunidades que existen en sectores...

tiene la tarea de crear el primer polo petrolero de la costa sur del Pacífico, que se constituye en un reto monumental para las empresas chinas que quieren incursionar en el Perú.

"Este tema involucra la construcción del gasoducto del sur del país con más de 1.200 kilómetros de extensión. Asimismo, estamos trabajando el desarrollo de energía rural bajo un nuevo concepto, pues no solo se trata de poner iluminación sino de generar industria para desarrollar actividades productivas", destacó.

También la dijo que hay una gran demanda de infraestructura, ya que el crecimiento del Perú y el mejoramiento de nuestra economía hace es que las empresas demanden condiciones adecuadas de las vías de conectividad.

El Tren de la Costa, que debe unir Pucallpa con Yacu, y la Carretera Longitudinal de la Sierra son otros de los proyectos que Perú busca desarrollar, así como la edificación de puentes, para lo cual se ha creado el programa Perú Puentes que proyecta para este año la construcción de mil puentes como línea y modelo de...

ECONOMÍA 101

ELMER CUBA
Socio Director Macrocrédit
@elmercuba



¿TRAMPA DEL INGRESO MEDIO?

Algunas economías en desarrollo que venían teniendo un buen desempeño dejaron de crecer a tasas altas por varios años. A ese fenómeno se le conoce como "trampa del ingreso medio". En otros países, si se percibe que "pronto" alcanzarán los umbrales de economía desarrollada, ello no sucede.

El crecimiento y el desarrollo son más bien efímeros. No se puede extrapolar las tasas de crecimiento de, digamos, la década pasada para los siguientes diez décadas.

Ello es así, porque hay varias...

etapas en el crecimiento económico de largo plazo de los países. La economía peruana está todavía en el tramo de acumulación de capital físico. Si de ahí, hasta con la inversión privada para crecer.

No siempre se es así. También puede fallar la infraestructura y el capital humano. In general, la calidad de los servicios públicos puede constituir a ser o no en el desarrollo restrictivo al crecimiento de largo plazo.

Si hacemos poco al respecto, lo más probable es que la economía siga en este trampa. *



A new vision for Mexico 2042

Middle income trap

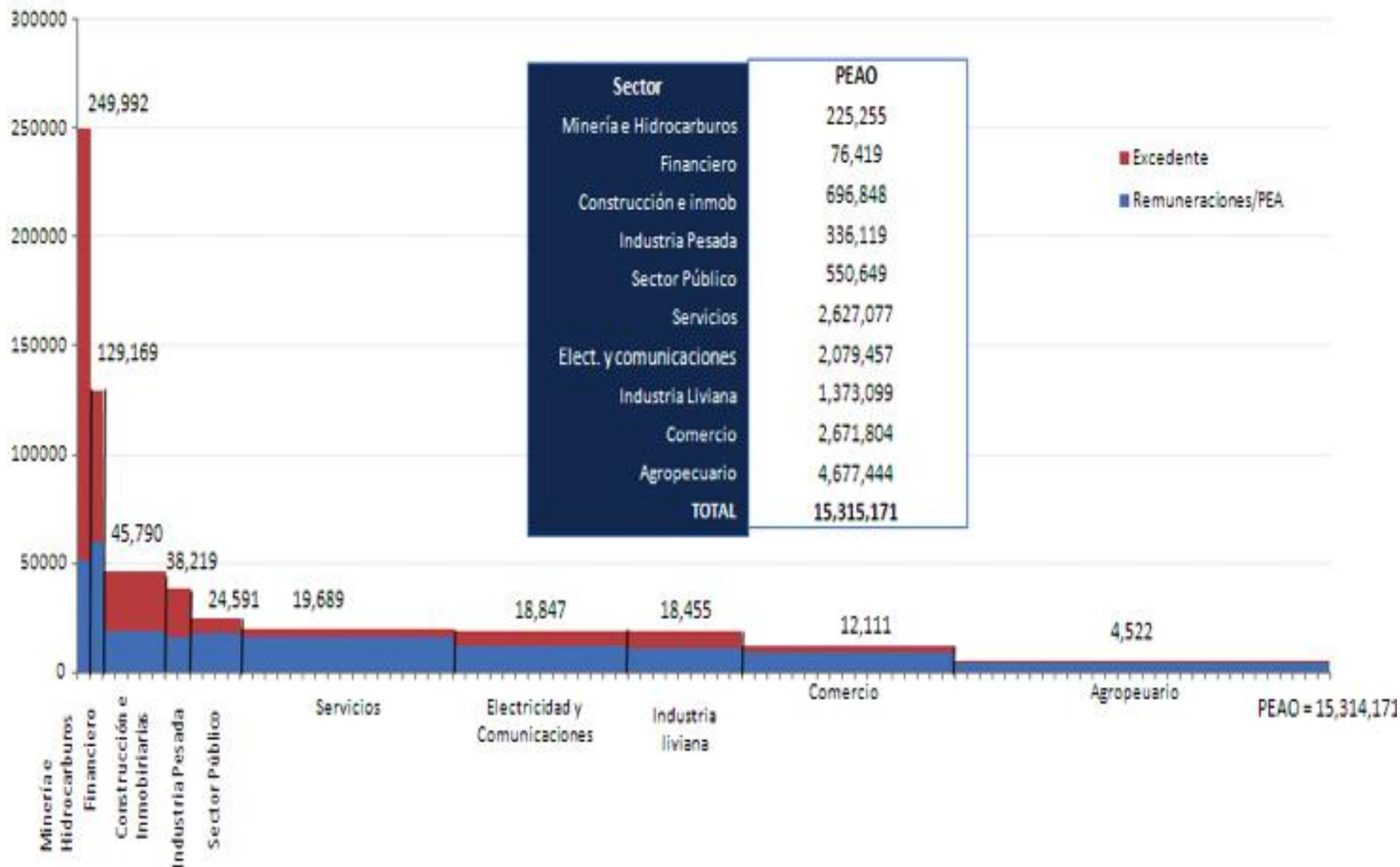
- Countries categorized as having fallen into the middle income trap have wages that are too high to allow them to be globally competitive in basic manufacturing reliant on low wages, yet they do not have the technological capabilities, human capital and institutions necessary to produce more sophisticated products to compete with the advanced countries. In other words, these countries have not made the transition from input-driven growth to productivity-driven growth.
- Mexico fits this paradigm; though, it is not alone in this predicament.
- The findings of the report indicate that Mexico is stuck in the middle income trap and getting out of it is hard. Not only does this mean that it is being surpassed by other emerging markets, but there's a sense of complacency that makes reform difficult.

Claudio Loser, Harinder Kohli, *Achieving Prosperity for All*, 2012.

The case of Peru

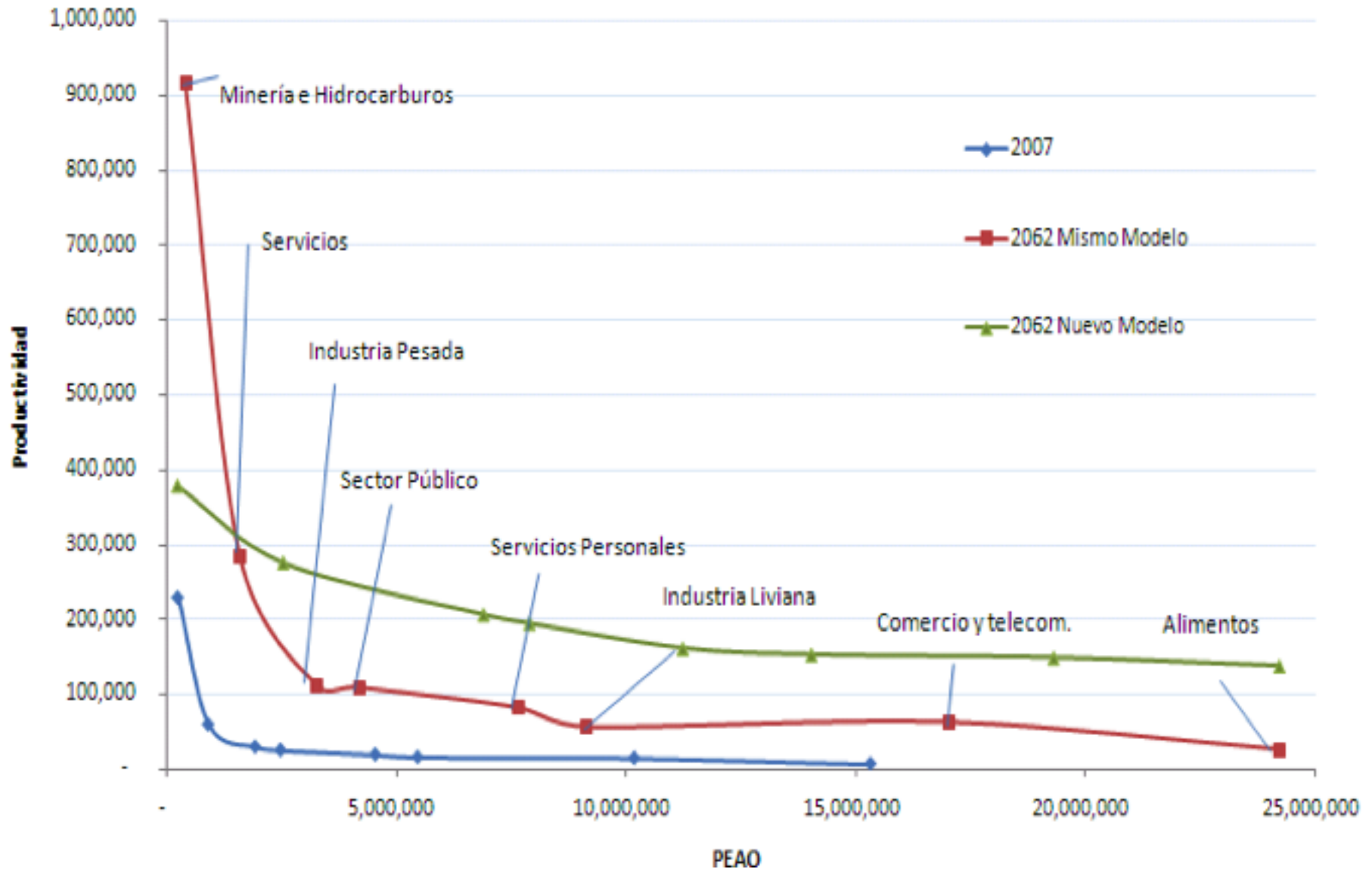
- When we wake up in 2062, Visions of Peru 50 years from now
- Universidad del Pacífico, Lima, March 2013.

PERU: Productivity (GVA/Worker) and Salaries per worker by economic sector, 2007 (in millions of soles)



Peru 2012-2062:

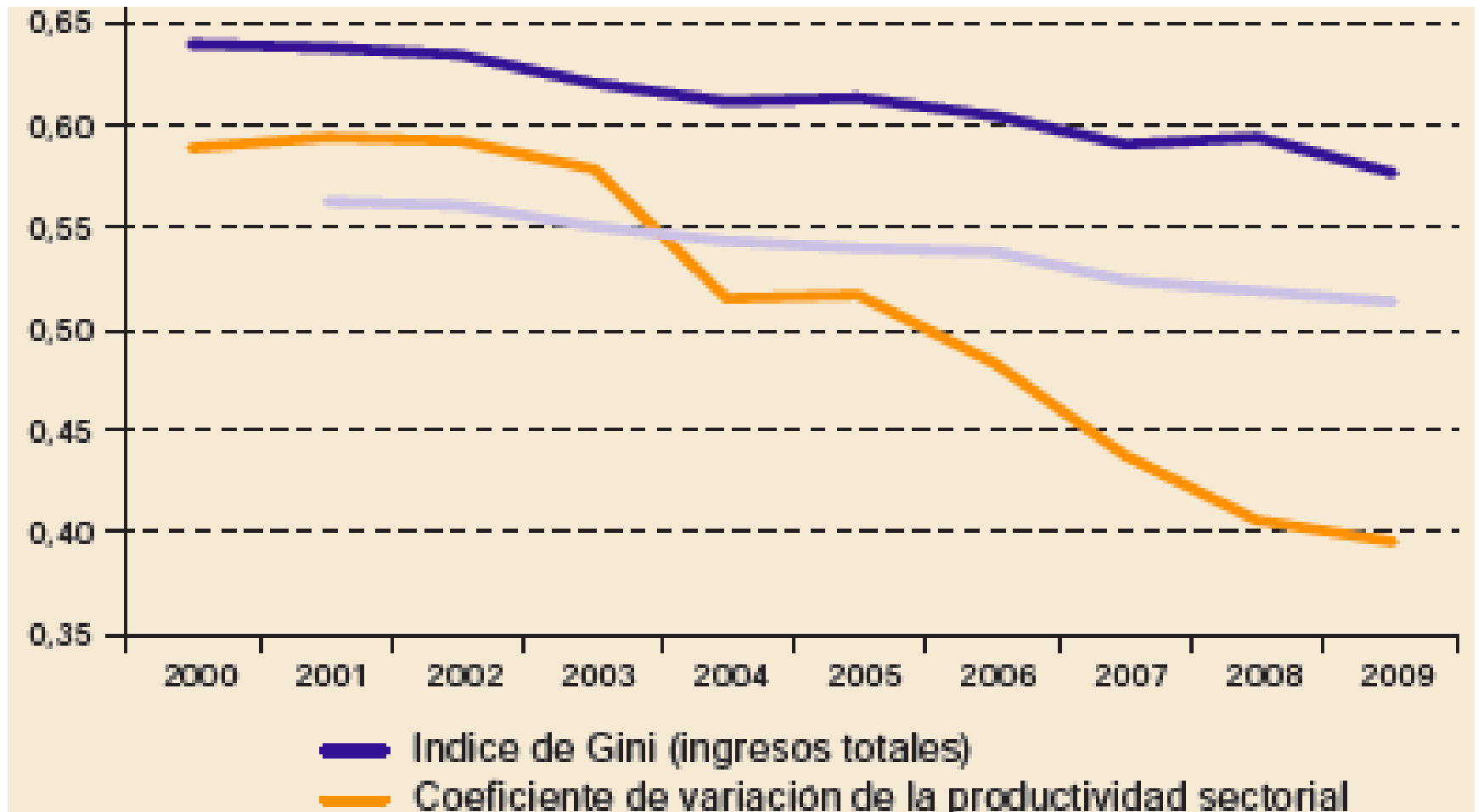
Productivity and Employment: 3 scenarios (Jurgen Schuldt)



In Brazil, “Plan Brazil” makes the difference

- The new plan, which covers the period 2011-2014, has a wider scope than the PDP and includes policies to drive innovation, investment and foreign trade, measures to protect the domestic market and local production of manufacturers (the purchasing power of the State is very important).
- This defensive approach is particularly important in a context where the strong appreciation of the real increased the pressure of imported goods on domestic production, with the consequent loss of the latter. In 2012, the government announced a series of complementary measures, among which: the prevention of customs crimes and the strengthening of compliance with technical standards as defensive measures, under the suggestive title "Armored Border", "hot packs" (textiles and apparel) and "Long steps" (shoes).
- ECLAC, Cambio Estructural con Igualdad, 2012.

BRAZIL: Structural Heterogeneity and Inequality, p. 19

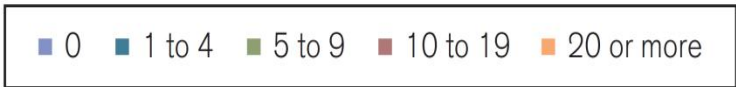
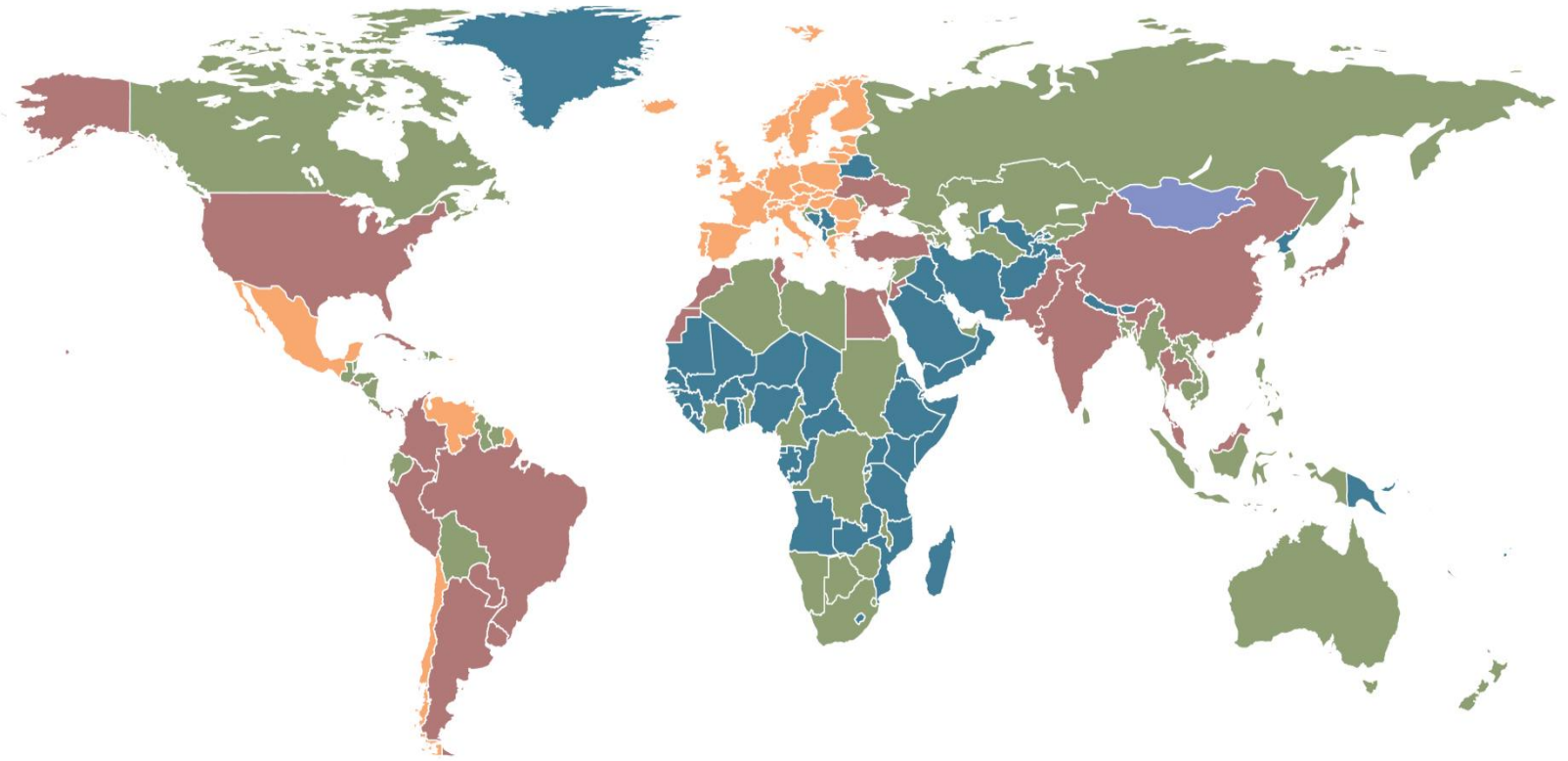


Integration and Trade

Integration to expand the internal market through Trade

- Long time Latin American dream
- Different integration bodies until the 80's
- Washington Consensus and Structural Adjustment since 1990
- Gatt, Uruguay Round and the WTO
- Crisis of WTO and the launching of FTA's: first NAFTA with Mexico (1992).
- Free Trade Agreement of the Americas (FTAA) failed in 2004-2005.
- FTA Chile-US (2003). In the new millenium:
- Peru-US (2007), US- Central America and the DR (2004-2009) ,
Colombia-US (2007-2012),
- Also, FTAs with Asian countries and with the European Union.
- Mercosur countries do not have FTAs with US. They are negotiating an FTA with EU.

Membership in Preferential Trade Agreements in force, 2010, notified and non-notified PTAs, by country



Source: WTO Secretariat.

Date of implementation of LA Trade Agreements

Devlin and Giordano, Oxford Handbook of LA Economics

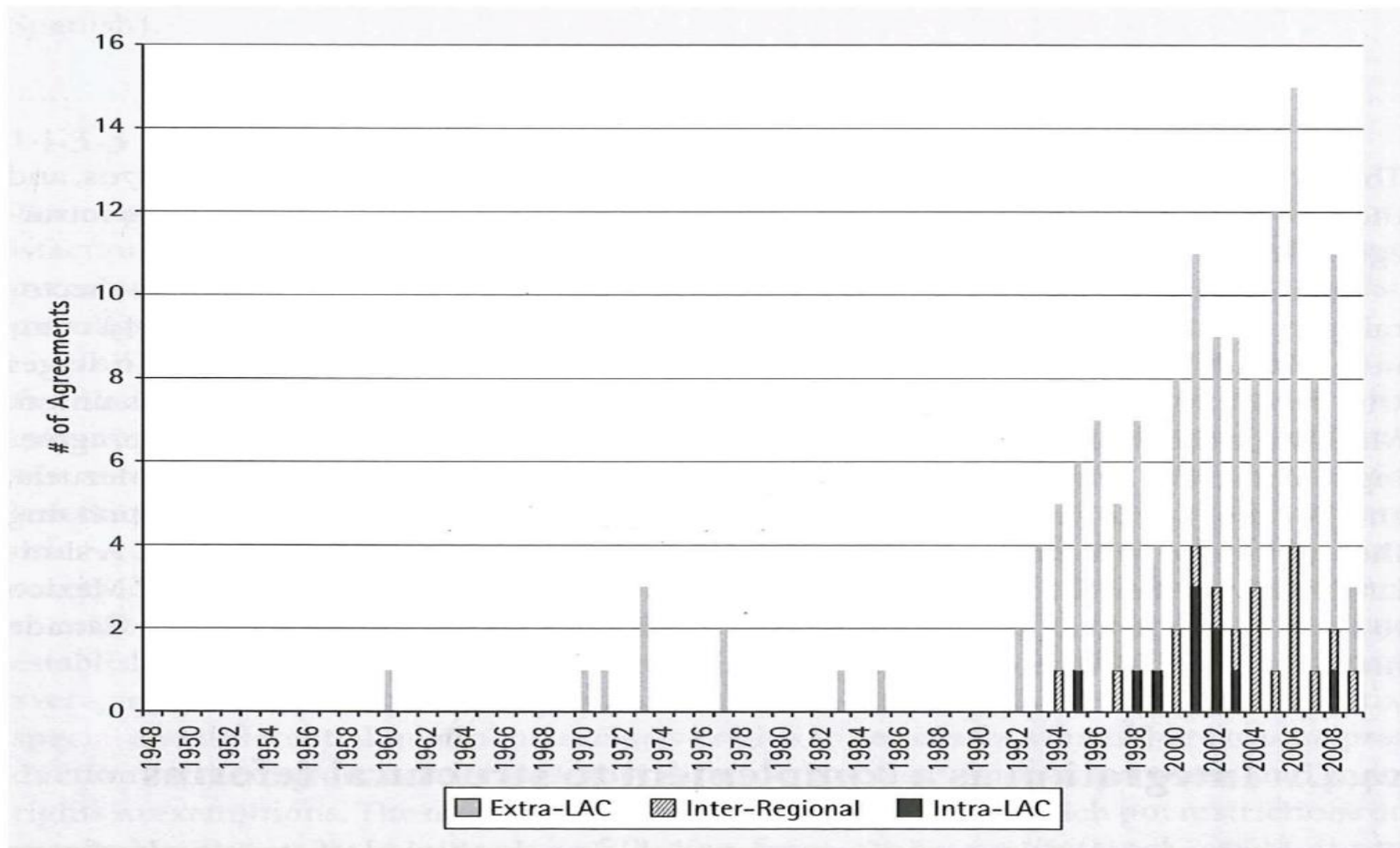


FIGURE 14.1 Date of implementation of Latin American trading agreements

Source: IDB, Integration and Trade Sector (INT).

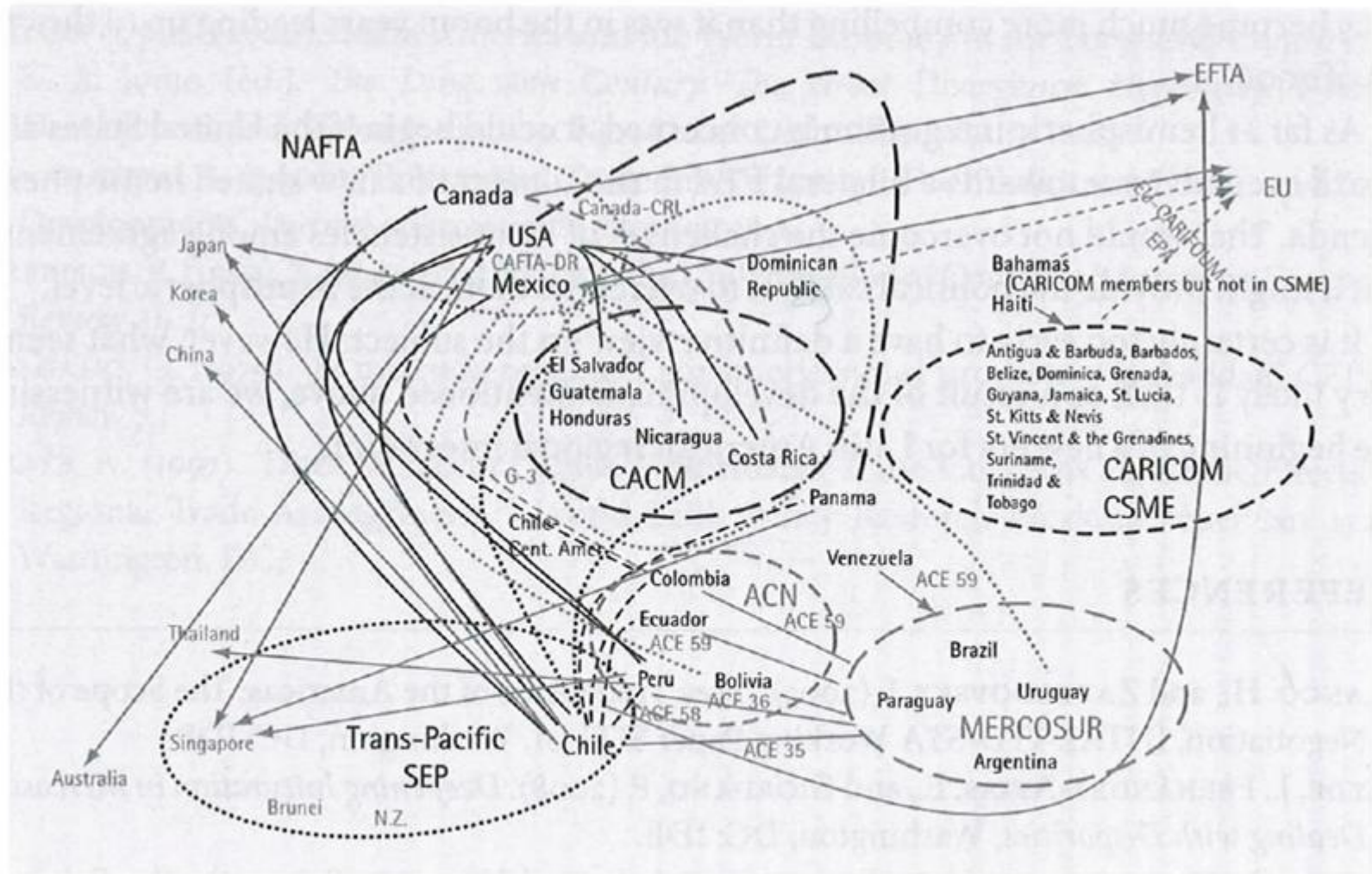


FIGURE 14.4 The proliferation of trade agreements in the Americas

Source: IDB, Integration and Trade Sector (INT).

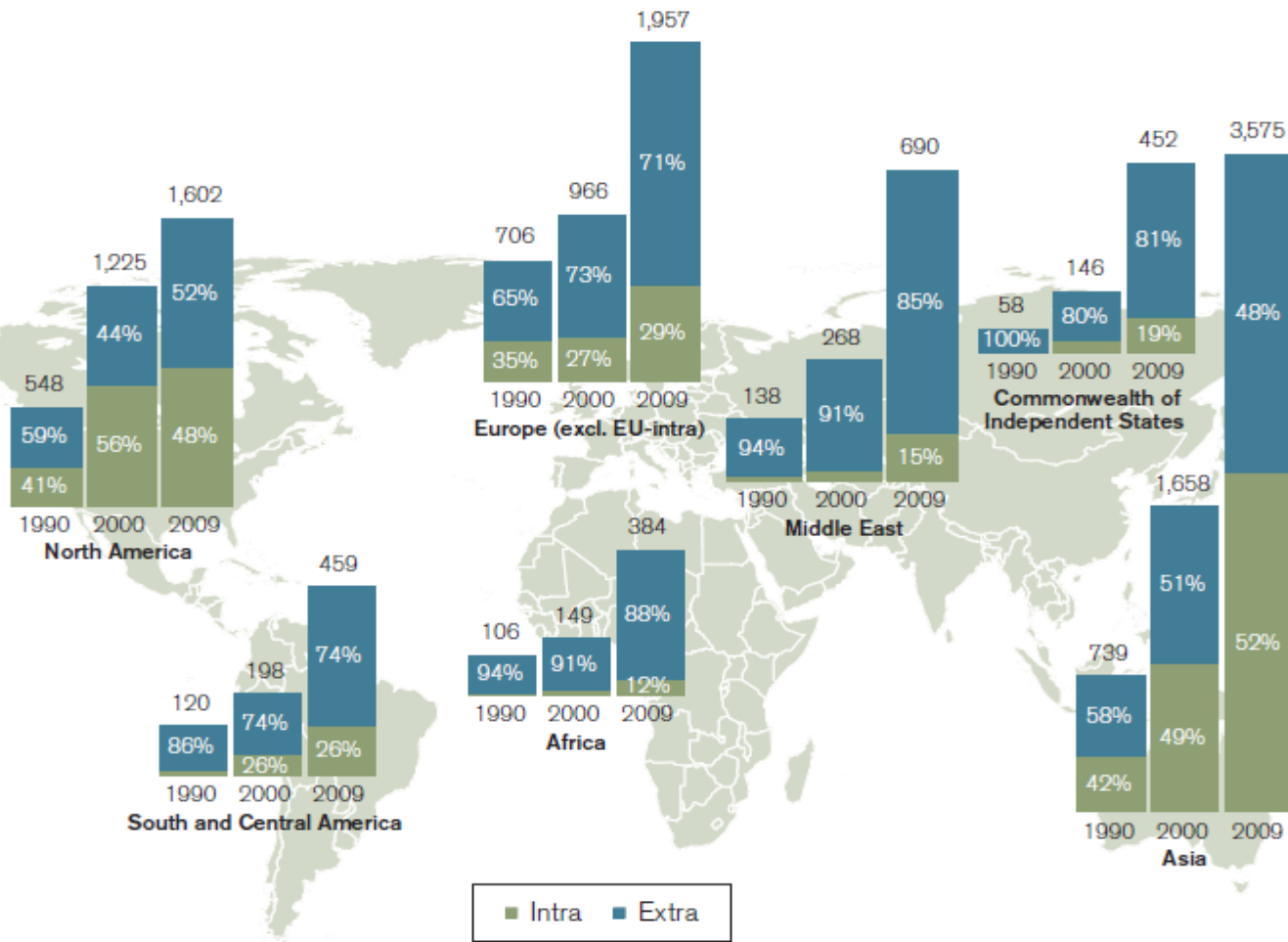
Latin-america only integration?

- The proliferation of FTAs makes it impossible to draw sharp lines around trade blocs. As the worldwide trend shows, these boundaries are “fuzzy”. Snowballing bilateral agreements make boundaries indeterminate and in constant reconfiguration.
- Traditional blocs once envisaged as fixed are now in a state of flux, and come under varying degrees of stress as newcomers join and old members defect. To sum up, we are no longer in the presence of a fixed one-stop shop.
- Trade blocs are fuzzy since the geographical boundaries shift constantly due to FTAs proliferation. They are also “leaky” in the sense that the bloc’s tariff wall has several holes due to associations with other blocs around the world.
- Thus, are the days of Latin America-only integration over ?
- **Diana Tussie, Latin America in the World Trade System, OUP, 2011.**

Alternatives

- Great potential for more intra-regional trade
- More South-South trade
- China: becoming first trade partner
- Need to better the exports to all markets, starting with China

Intra-regional and Extra-regional merchandise exports of WTO regions, 1990-2009 (Billion dollars and percentage)

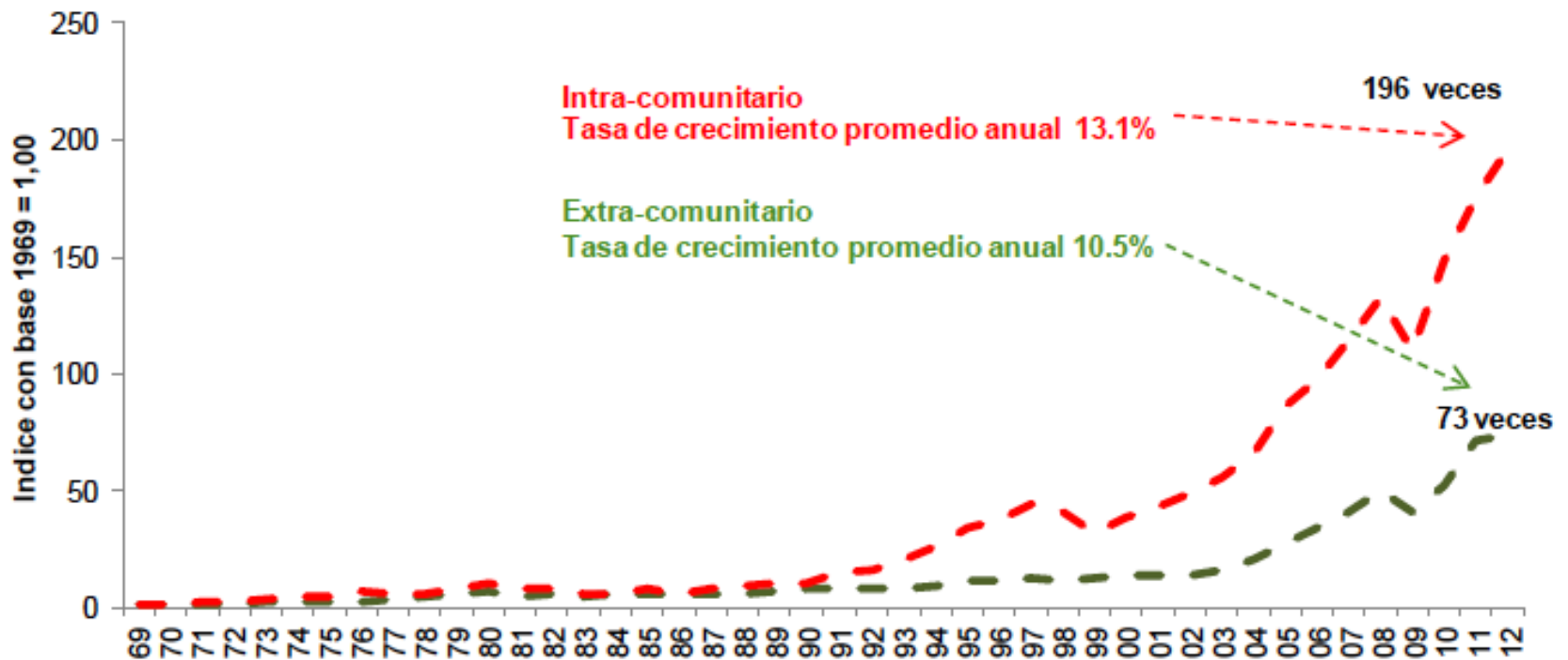


Note: Graphs for regions are not shown to scale. Colours and boundaries do not imply any judgement on the part of WTO as to the legal status of any frontier or territory.

Source: Network of world merchandise trade tables from WTO International Trade Statistics 2010, supplemented with older network tables and Secretariat estimates prior to 2000.

Andean Community Trade Performance

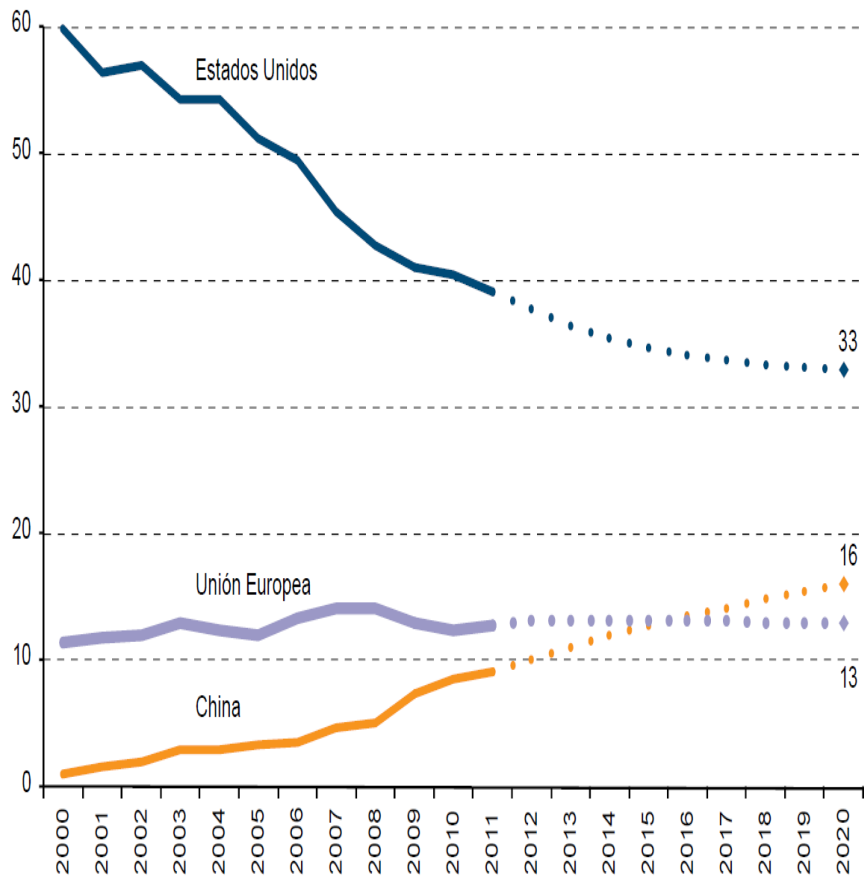
Experiencias intracomunitarias y extracomunitarias 1969 - 2012



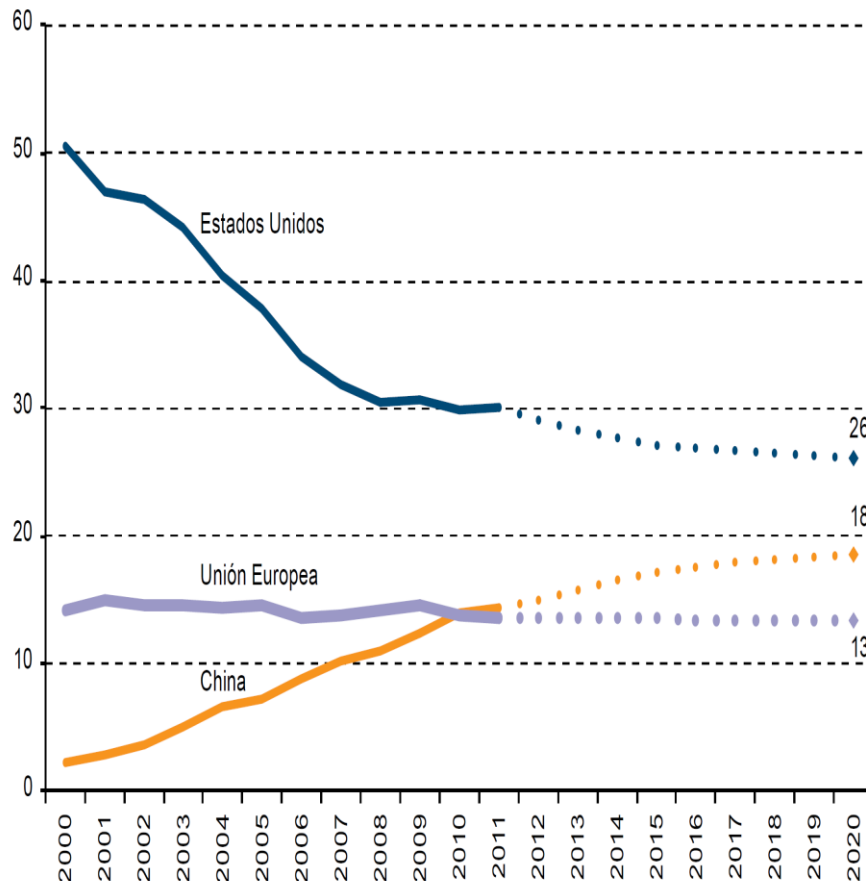
FUENTE: COMUNIDAD ANDINA, Secretaría General, Sistema Integrado de Comercio Exterior. Decisión 511. SICEXT, Resolución 738.

LAC (16 countries): Participación de exportaciones e importaciones en Total Transactions, 2000-2020 (In percentages)

A. Exportaciones (por destino)



B. Importaciones (por origen)



The importance of China, and the challenges

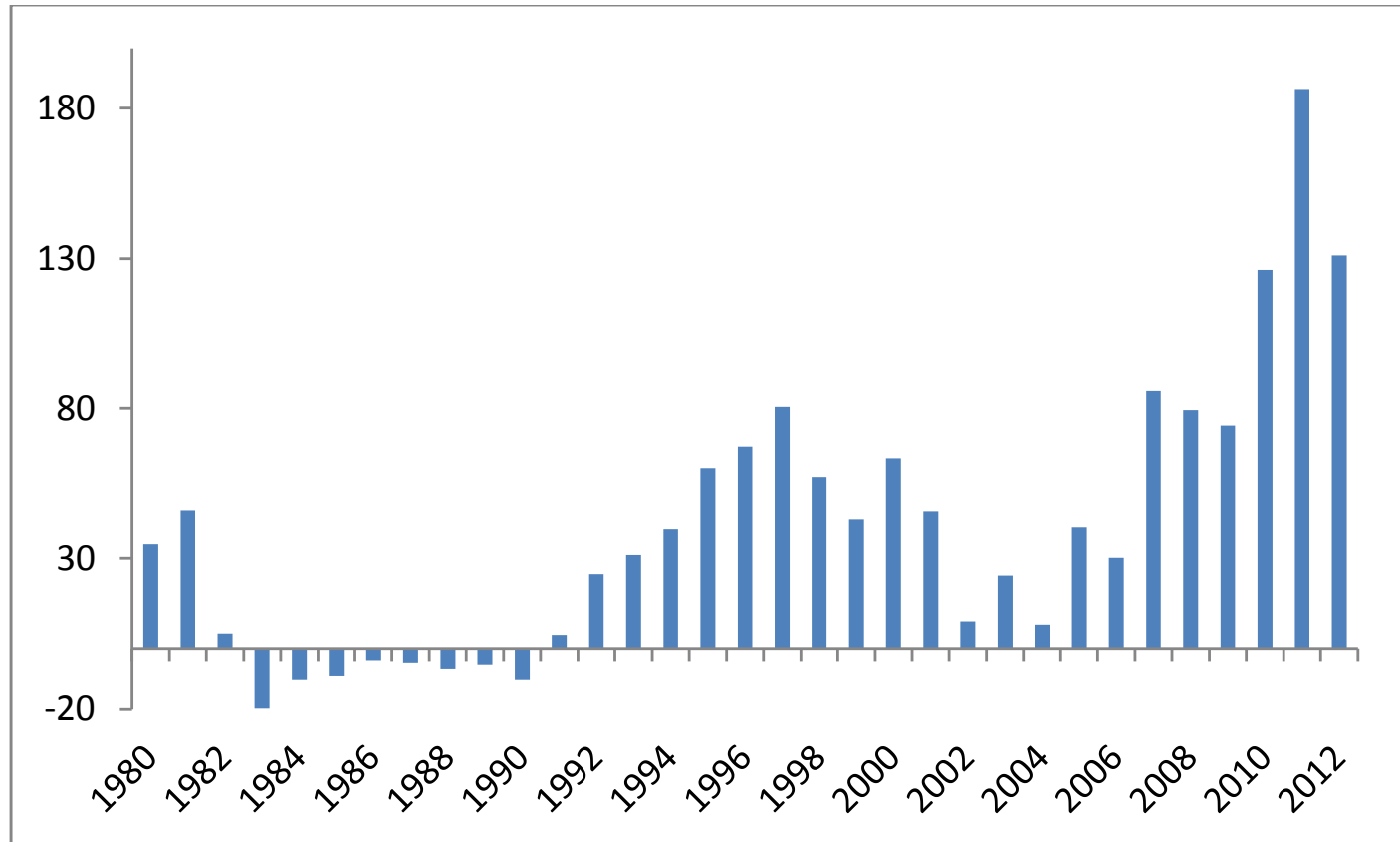
- The entry of China into the WTO has shaken policies as well as beliefs. While China's low labor costs and strong competitiveness pose risks to the manufactured exports, its appetite for raw materials and foodstuffs has favored LA's commodity endowments.
- Trade with China, is, however, very much concentrated on a small basket of commodities, copper, oil, iron ore, soybeans and wood. The new engine of growth may deepen the historical trade specialization towards commodities –goods usually characterized by strong price volatility.
- Unless an effort to deepen specialization is mustered, and over-reliance on a single engine of growth is tempered, dependence on a few commodities will intensify; countries will remain overexposed to trade shocks, and the inequality generating forces of international asymmetries will not be tamed.
- Diana Tussie, Latin America in the World Trade System, OUP, 2011.

External Sector and Shocks

Capital Flows: an overall package

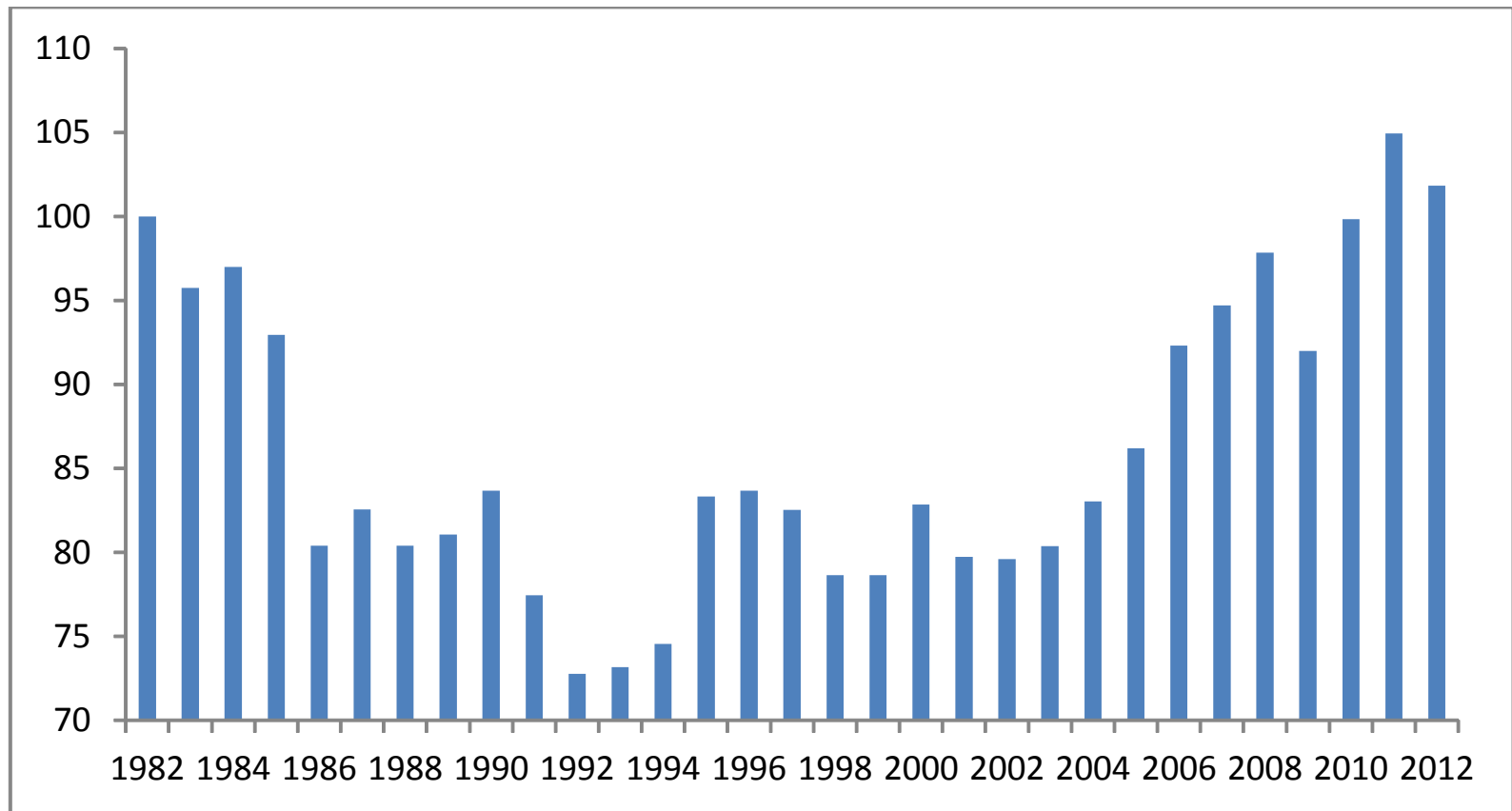
- Capital controls have to be a part of an overall package comprising exchange rate flexibility, the maintenance of adequate reserves, sterilization, and the development of the financial sector.
- There is a clear need for the deployment of multiple instruments. The current fashion of a single objective, single instrument monetary policy is undoubtedly inadequate to deal with capital flows.
- Pardee Center Task Force Report, 2012, p. 30.

LAC, Net Capital Flows,



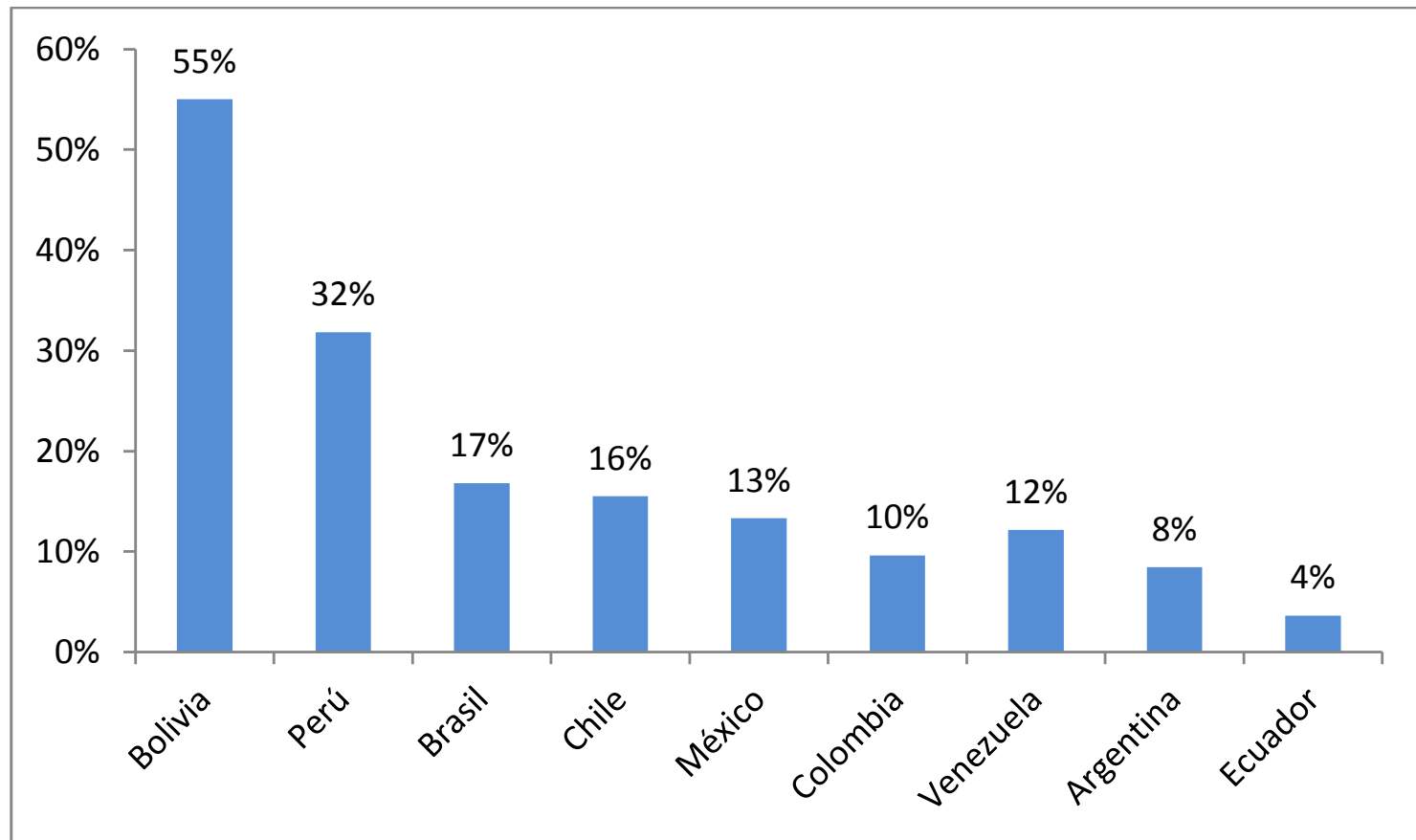
LAC, Terms of Trade, Mendoza

(1982 = 100)



LAC Foreign Reserves 2012 (% of GDP)

Since 2003 they have multiplied by 5



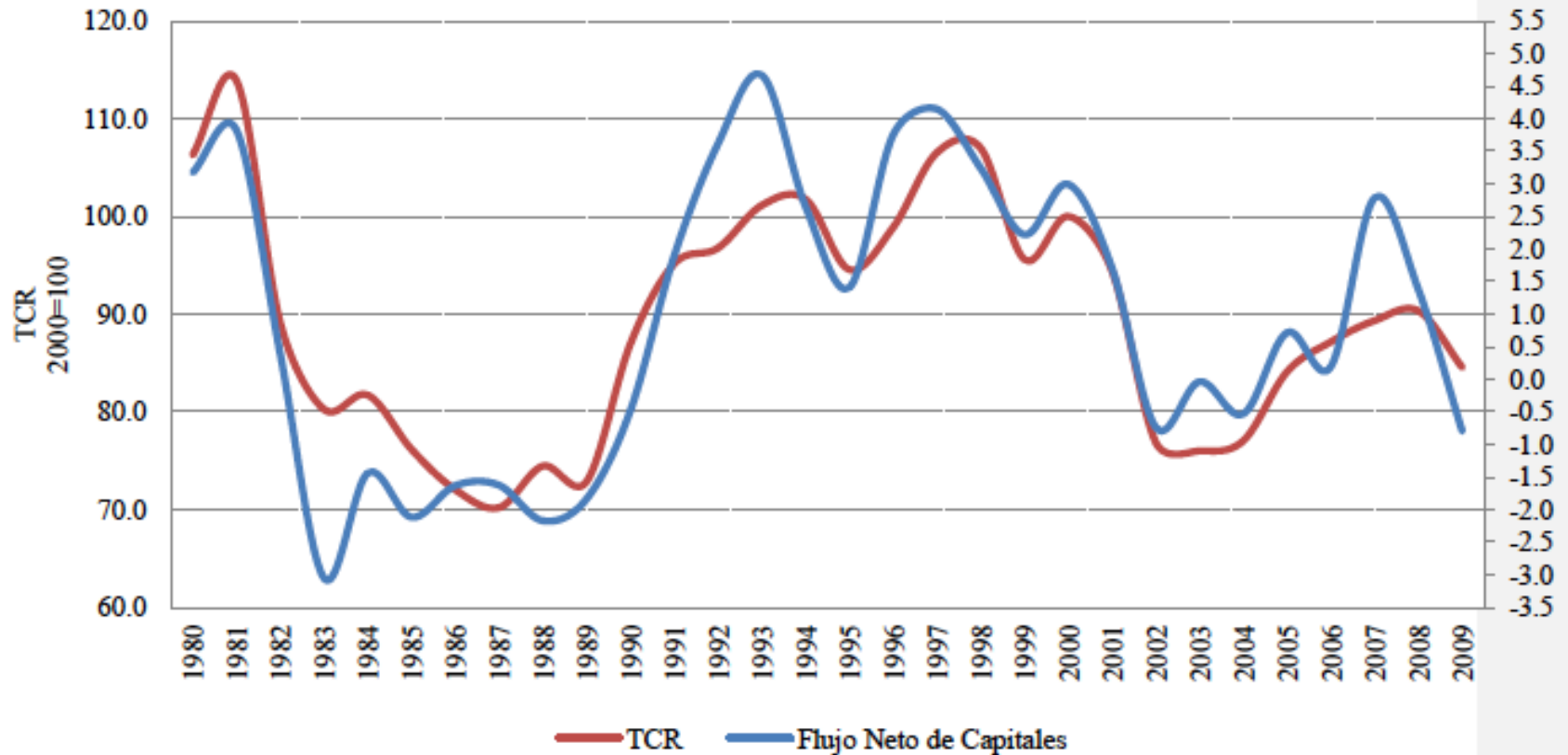
Exchange Rate Volatility and Dutch disease

- One particular channel of crucial importance through which financial flows have affected the macroeconomic performance is through the exchange rate, particularly through real exchange rate volatility.
- This problem has been particularly strong in South America, where it has been mixed since 2004 with booming terms of trade, ***generating a significant risk of a Dutch disease*** . There are, in fact, three distinctive issues here.

LAC: Net Capital Flows and Real Exchange Rate 1980-2009

Ricardo Ffrench Davis

(TCR en índice 2000=100, Flujos en % del PIB)

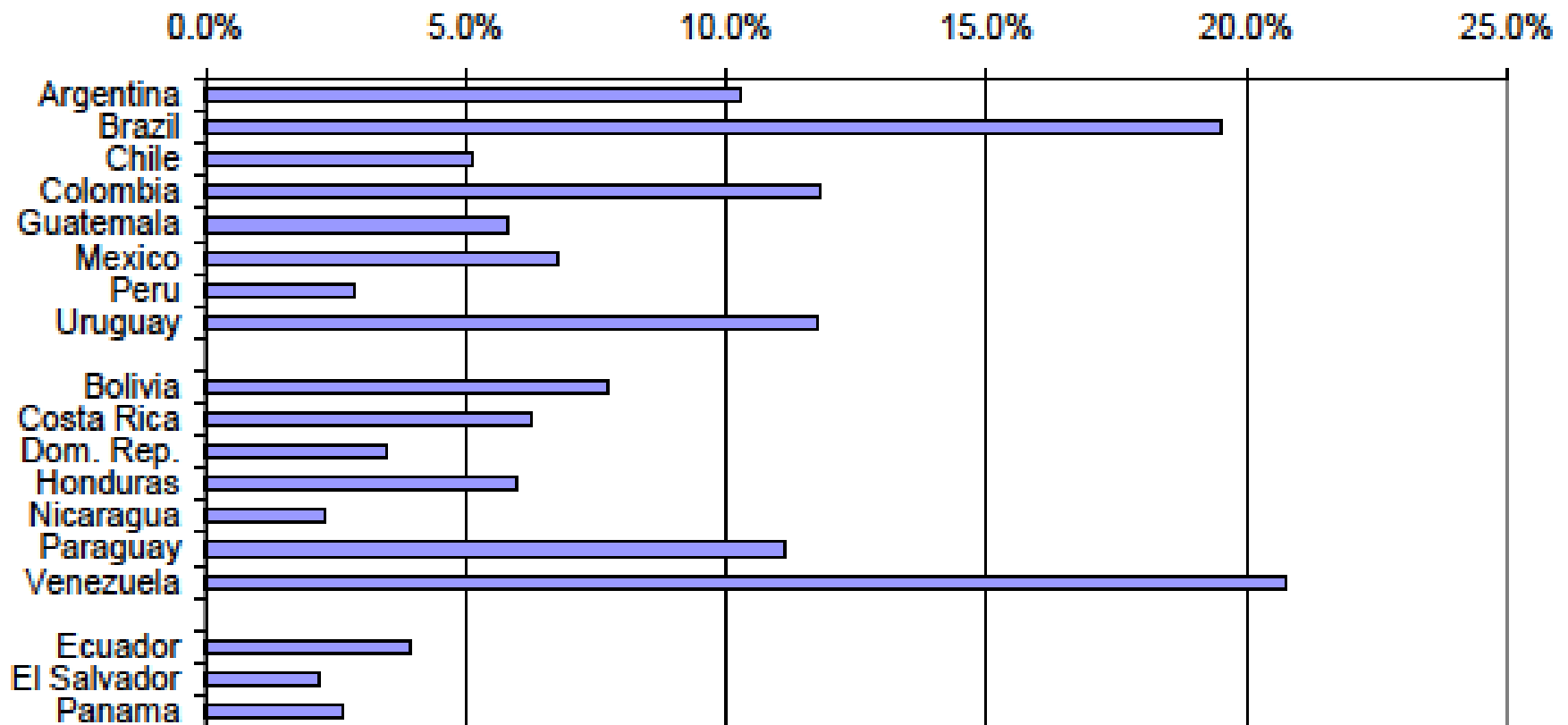


Fuente: Ffrench-Davis (2005) y actualizaciones con datos de CEPAL. El tipo de cambio nominal utilizado en este gráfico está definido como dólares por moneda local por el promedio

Exchange Rate Volatility

Figure 4

Coefficient of variation of the real exchange rate, 2004-2011



Exchange rate volatility (2)

- The first one refers to the level of over/under valuation of the real exchange rate, which has shown to be a clear relation to long-term economic growth.
- The second is the effect that volatility itself has on incentives to invest in tradables: it tends to reduce capital accumulation if investors are risk averse.
- The third, as a copious literature has shown, is the risk of future crises, which tend to rise with the level of overvaluation and associated current account deficits.

Real Exchange Rate

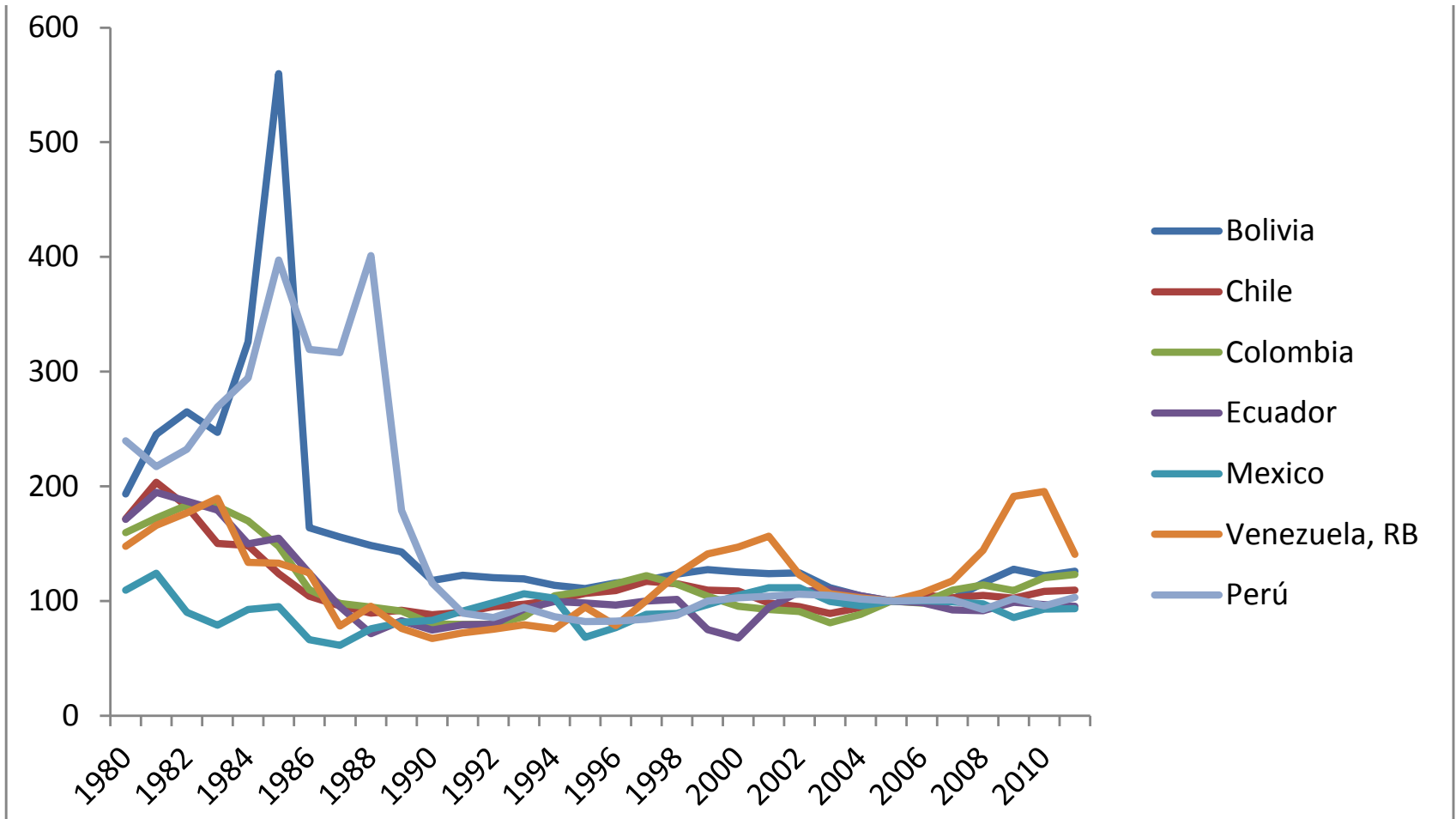
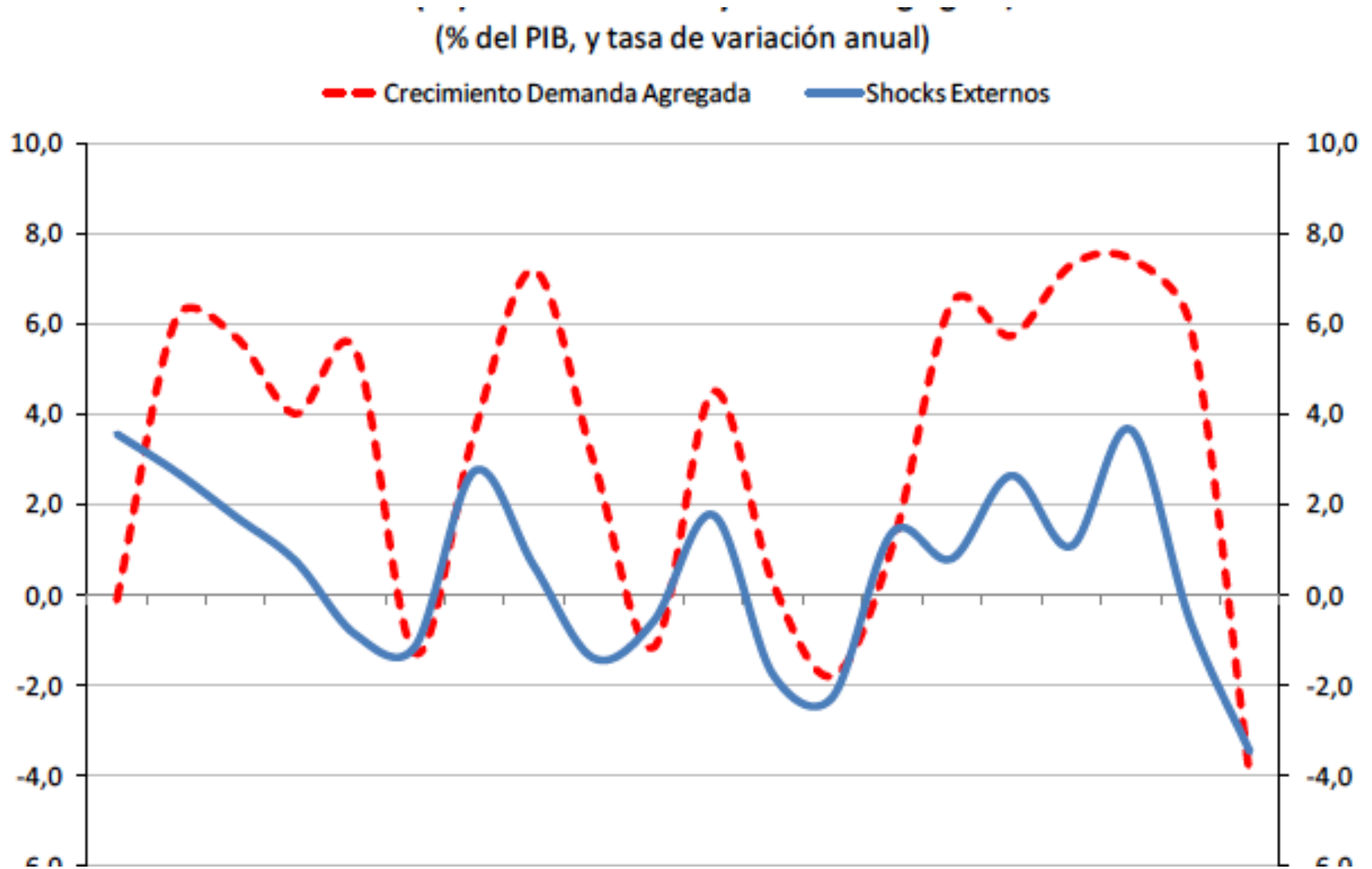


Gráfico 2 - LAC: External Shocks and Aggregate Demand 1990-2009, Ricardo Ffrench Davis



Need of Policy Space

- New research drawing from the experiences of Brazil and South Korea shows that a mix of permanent and temporary macroprudential and CAR measures have been effective in those countries and a “one-size-fits-all” approach to the timing of regulation will not be effective (1).
- Furthermore, the IMF is aware of the fact that it may recommend CARs to nations that do not have the policy space to deploy them because they would be deemed actionable under a trade agreement or investment treaty (2).

IMF, World Regional Economic Outlook Oct 2011, Chapter 3, p. 51

- In sum, Latin America remains—on average—as exposed to commodities-related risk as four decades ago, making it vulnerable to a sharp decline in commodity prices. At the same time, higher diversification (as non-commodity exports have grown even faster) has arguably made many of these countries more flexible to withstand such shocks.
- This is not the case, though, for energy and metal exporters, which are today particularly vulnerable to a global slowdown, given their higher overall commodity dependence and their greater concentration in commodities—heightened by their exposure to commodities that are more sensitive to the global economic cycle (Box 3.2).

Ocampo and the Latin American decade

- The triangle of technological upgrading, significantly diversifying its trade with China and betting on strong integration processes would deliver a Latin American decade. But we are far from there.

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- What are our exports?
- How should we grow? Middle Income Trap?
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- External sector: an overall package
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