Rethinking Development in LAC

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UN-ECLAC
Outline

• Emerging properties of globalization
• Has trade lost its attractivity?
• Global imbalances seems here to stay
• Traditional interpretations might be (un)useful
• Game Changers
• Policy Challenges
• Redefining the concept of development
• Why rethinking development in Latin America and the Caribbean
• Low growth since the lost decade
• Productivity and the productive structure
• Can we find a way out?
• The sustainability of social expenditure
• Rethinking development: a theoretical proposal
Why rethinking development now?
Emerging properties of globalization: a complex and multipolar world

<table>
<thead>
<tr>
<th>Agglomeration-fragmentation</th>
<th>The internationalization of competition requires more and more scale to compete in the global arena. This generates agglomeration-fragmentation dynamics that affect productive and technological opportunities, the accumulation of capabilities and the structure of the labour market.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-polarity and Complexity</td>
<td>Shift of economic and political power and new emerging actors, especially China. Interconnected economies deeply dependent and responsive to each other.</td>
</tr>
<tr>
<td>Interrelated Issues</td>
<td>Problems and challenges are increasing borderless and tackling them usually requires coordinated actions.</td>
</tr>
<tr>
<td>Growing Imbalances</td>
<td>Persistent trade and current accounts imbalances. Growing asymmetries in development and income distribution, between and within countries.</td>
</tr>
<tr>
<td>Crisis-prone context</td>
<td>The world economy is much more vulnerable and subject to systemic shocks. Shocks’ propagation scale has increased.</td>
</tr>
</tbody>
</table>
Has trade lost its attractiveness?

INTERNATIONAL TRADE AND GDP ANNUAL CHANGE
(1981-2017)

- Change in Global Trade
- Change in Global GDP
- Change Global Trade / Change in Global GDP
Global imbalances seem to stay.

CURRENT ACCOUNT BALANCES, 2008-2016*  
(Percentages of global GDP)
Traditional interpretations might be (un)useful

1. Unresponsiveness of macro variables: despite the recover in labor markets there is little evidence of wage and inflation pressure

2. The pace of the digital revolution and its impact on production, productivity and labor market

3. Geopolitical tensions and the race to lead the new global order between China, the USA and the EU
# Game Changers

## Diffusion of Power
Economic and political power have shifted from their traditional locus and are now more evenly distributed between old and new economic players. New, actors play a fundamental role in the international arena.

## Demographic Change
Demographic changes are intensifying production and resources demand. The demographic dynamics of developing countries are opening questions about the stability of future economic growth.

## Climate Change
Climate change – and the unequal distribution of its impacts, affecting mostly regions that contaminate the less – threatens the sustainability of the whole system and calls for an urgent action to define a new and sustainable development model and provide the required global public goods.

## Technological Change
Technological transformation is reshaping the geography of production and challenging the stability of social protection systems.

## Inequalities
Increasing inequalities and polarizing social classes are challenging the sustainability of the current system from both the economic and the social perspective.
## Policy Challenges

<table>
<thead>
<tr>
<th>Governance Gap</th>
<th>The actual governance structure is dated, institutions and development policies have to be able to adapt to the new context to tackle emerging issues. New partnerships and new governance schemes are needed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borderless World</td>
<td>National and location-specific perspectives are not enough to harness change in a borderless world, new and more comprehensive perspectives are needed as development needs spread across regional and national borders.</td>
</tr>
<tr>
<td>Policy Scope</td>
<td>The number of development challenges that the world has to face together has increased. The scope of international cooperation has to be widened, including new tools and actors, and going beyond traditional financial support.</td>
</tr>
</tbody>
</table>
Redefining the concept of *development*

Development processes are not linear through time

- Development is not a succession of stages characterized by common and homogeneous defining characteristics
- Countries do not have the same means, instruments and capacity at their disposal to confront development challenges and transit through different stages of development
- Countries can be vulnerable to development reversals

In a globalized and interdependent world development

- is a continuum process where economic, social and environmental challenges are faced at any level of income
- has to be conceived as a universal process through which all countries go at the same time but with different needs and priorities
Why rethinking development in Latin America and the Caribbean
Low growth since the lost decade

Latin America and the Caribbean: growth rate 1950-2017

- Tasa de crecimiento
- Tendencia
After the 1980s growth has been extremely volatile.
The structural (un)sustainability of growth

Growth and the trade balance restriction in Latin America and the Caribbean, 1950-2016
(Percentages, mobile decades)
LAC Achilles’ hill: low productivity and the productive structure (I)
LAC Achilles’ hill: low productivity and the productive structure (II)

Selected countries: Internal relative productivity (2015)

Latin America: relative productivity wrt USA (2015)
LAC Achilles’ hill: low productivity and the productive structure (III)
Can we find a way out?

### Cuadro 1: Crecimiento, comercio exterior y productividad relativa: el desempeño de algunos países de América Latina antes y después de las reformas

<table>
<thead>
<tr>
<th>Antes de las reformas</th>
<th>Inmediatamente después de las reformas</th>
<th>Después de las reformas</th>
<th>País</th>
<th>Antes de las reformas</th>
<th>Inmediatamente después de las reformas</th>
<th>Después de las reformas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Elasticidad de las importaciones</td>
<td>Brecha productividad*</td>
<td>Elasticidad de las importaciones</td>
<td>Brecha productividad</td>
</tr>
<tr>
<td>1970-1990</td>
<td>1991-2000</td>
<td>2001-2016</td>
<td>Argentina</td>
<td>0.07</td>
<td>0.61</td>
<td>4.06</td>
</tr>
<tr>
<td>1970-1989</td>
<td>1990-2000</td>
<td>2001-2016</td>
<td>Brasil</td>
<td>0.59</td>
<td>0.39</td>
<td>5.33</td>
</tr>
<tr>
<td>1970-1984</td>
<td>1985-1998</td>
<td>1999-2016</td>
<td>Chile</td>
<td>0.65</td>
<td>0.71</td>
<td>1.98</td>
</tr>
<tr>
<td>1970-1989</td>
<td>1990-1999</td>
<td>2000-2016</td>
<td>Colombia</td>
<td>0.68</td>
<td>0.48</td>
<td>5.47</td>
</tr>
<tr>
<td>1970-1985</td>
<td>1986-2000</td>
<td>1987-2016</td>
<td>México</td>
<td>0.82</td>
<td>0.63</td>
<td>3.67</td>
</tr>
<tr>
<td>1970-1989</td>
<td>1990-2000</td>
<td>2001-2016</td>
<td>Perú</td>
<td>0.42</td>
<td>0.0</td>
<td>2.54</td>
</tr>
<tr>
<td>1970-1977</td>
<td>1978-2000</td>
<td>2001-2016</td>
<td>Uruguay</td>
<td>1.53</td>
<td>-0.46</td>
<td>3.13</td>
</tr>
</tbody>
</table>

If holds true dynamically: Specialization sustainability

$$\frac{e_i}{e_e} \sim \frac{\pi_i}{\pi_e}$$
The sustainability of social expenditure

The virtuous link: productivity and equality
Rethink Development in LAC: a theoretical proposal
<table>
<thead>
<tr>
<th>Development view</th>
<th>Orthodox (mainstream)</th>
<th>Moderate (mainstream)</th>
<th>Evolutionary/structuralist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro (choice of technology)</td>
<td>Relative prices, static view, reversible, continuum space</td>
<td>Plus market failures</td>
<td>Learning, accumulation of capabilities, path dependency</td>
</tr>
<tr>
<td>Industrial structure</td>
<td>Non issue, sectoral homogeneity, capital labour composition and choice</td>
<td>Imperfect competition and regulation</td>
<td>Sectoral (firm) heterogeneity, opportunity, contribution to productivity</td>
</tr>
<tr>
<td>Structural change</td>
<td>Static and market selection (natural rate of unemployment)</td>
<td>Around the comparative advantages</td>
<td>Engine of development (Unrelated/related activities, productivity/employment)</td>
</tr>
<tr>
<td>Industrial policy</td>
<td>“the best industrial policy [beign] none of all”</td>
<td>Policy to correct market failures</td>
<td>Active, horizontal and selective (sector, firms and technologies)</td>
</tr>
<tr>
<td>Macro prices</td>
<td>Flexibility</td>
<td>Flexibility and control of extreme volatility</td>
<td>Competitive real exchange rate (and interest rate)</td>
</tr>
<tr>
<td>Macro &amp; industrial development</td>
<td>Stochastic General equilibrium</td>
<td>Expansionary fiscal consolidation hypothesis</td>
<td>Keynesian/Schumpeterian world</td>
</tr>
</tbody>
</table>
According to the perversity thesis, any purposive action to improve some feature of the political, social, or economic order only serves to exacerbate the condition one wishes to remedy. The futility thesis holds that attempts at social transformation will be unavailing, that they will simply fail to "make a dent."
Finally, the jeopardy thesis argues that the cost of the proposed change or reform is too high as it endangers some previous, precious accomplishment.