

Rethinking Development in LAC

Mario Cimoli, Deputy Executive Secretary

UN-ECLAC

Outline

- Emerging properties of globalization
- Has trade lost its attractiveness?
- 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

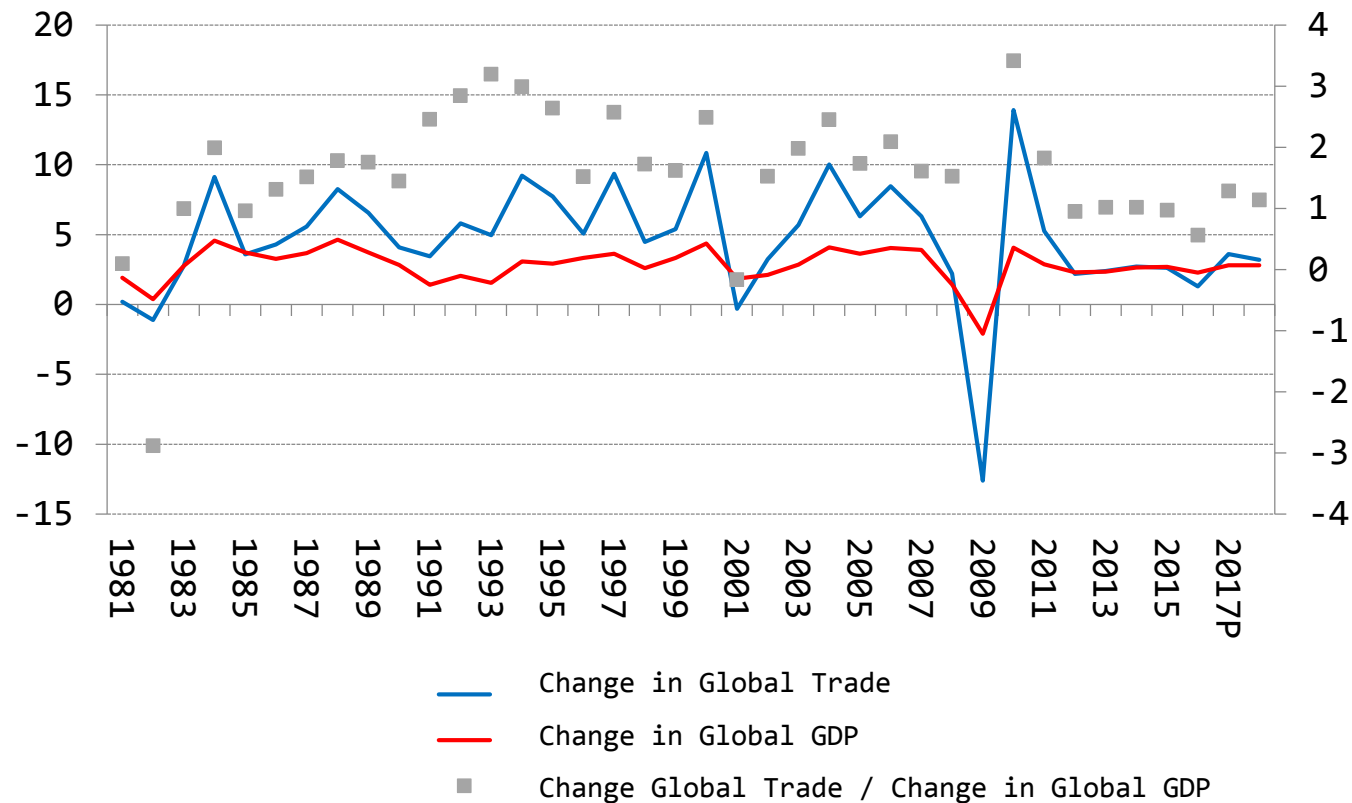
Why rethinking development now?

Emerging properties of globalization: a complex and multipolar world

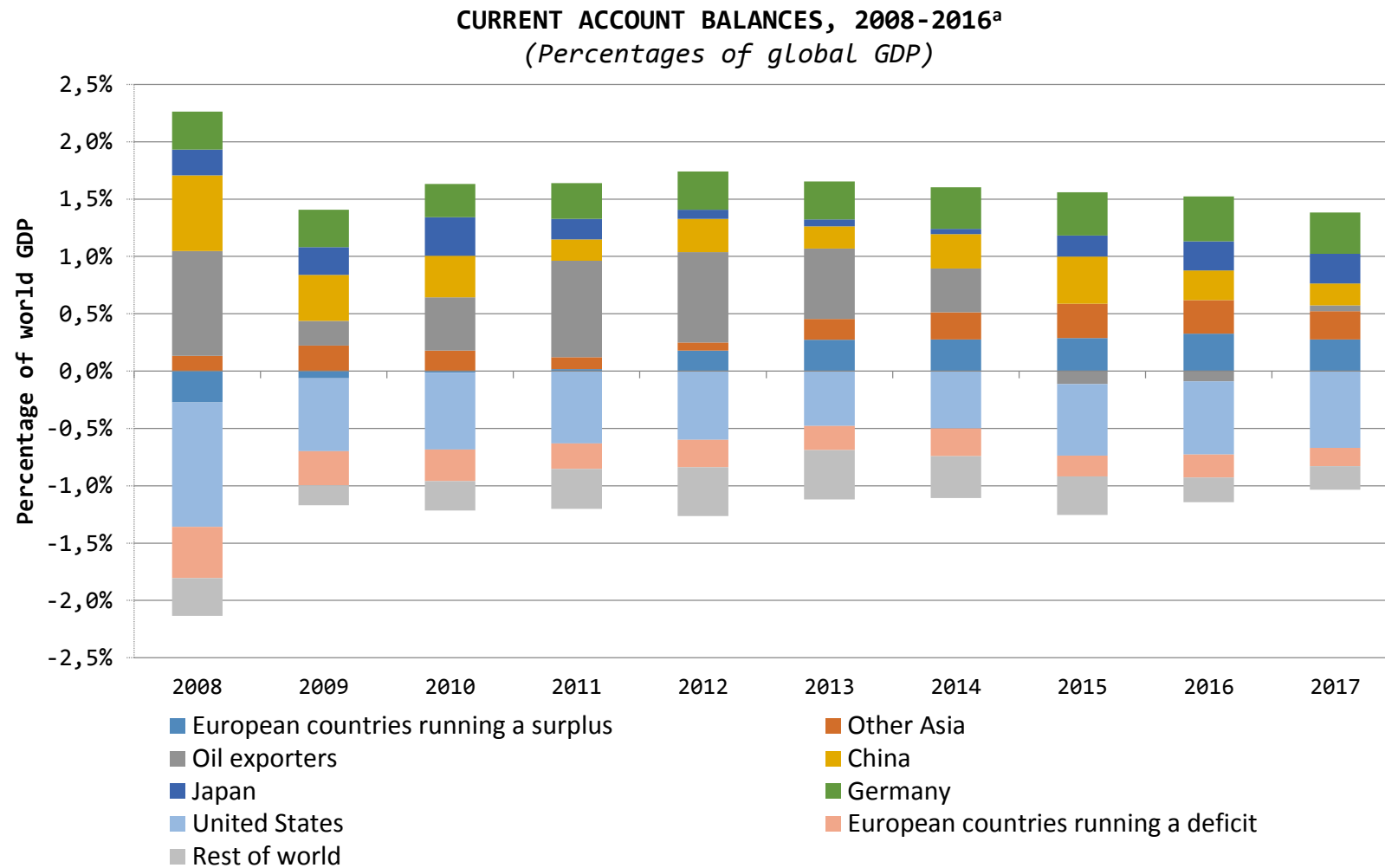
Agglomeration-fragmentation	The internationalization of competition requires more and more scale to compete in the global arena. This generates agglomeration-fragmentation dynamics that affect productive and technological opportunities, the accumulation of capabilities and the structure of the labour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

Has trade lost its attractiveness?

INTERNATIONAL TRADE AND GDP ANNUAL CHANGE
(1981-2017)



Global imbalances seems here to stay



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

Governance Gap

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.

Borderless World

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.

Policy Scope

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.

Redefining the concept of *development*

Development processes are not linear through time

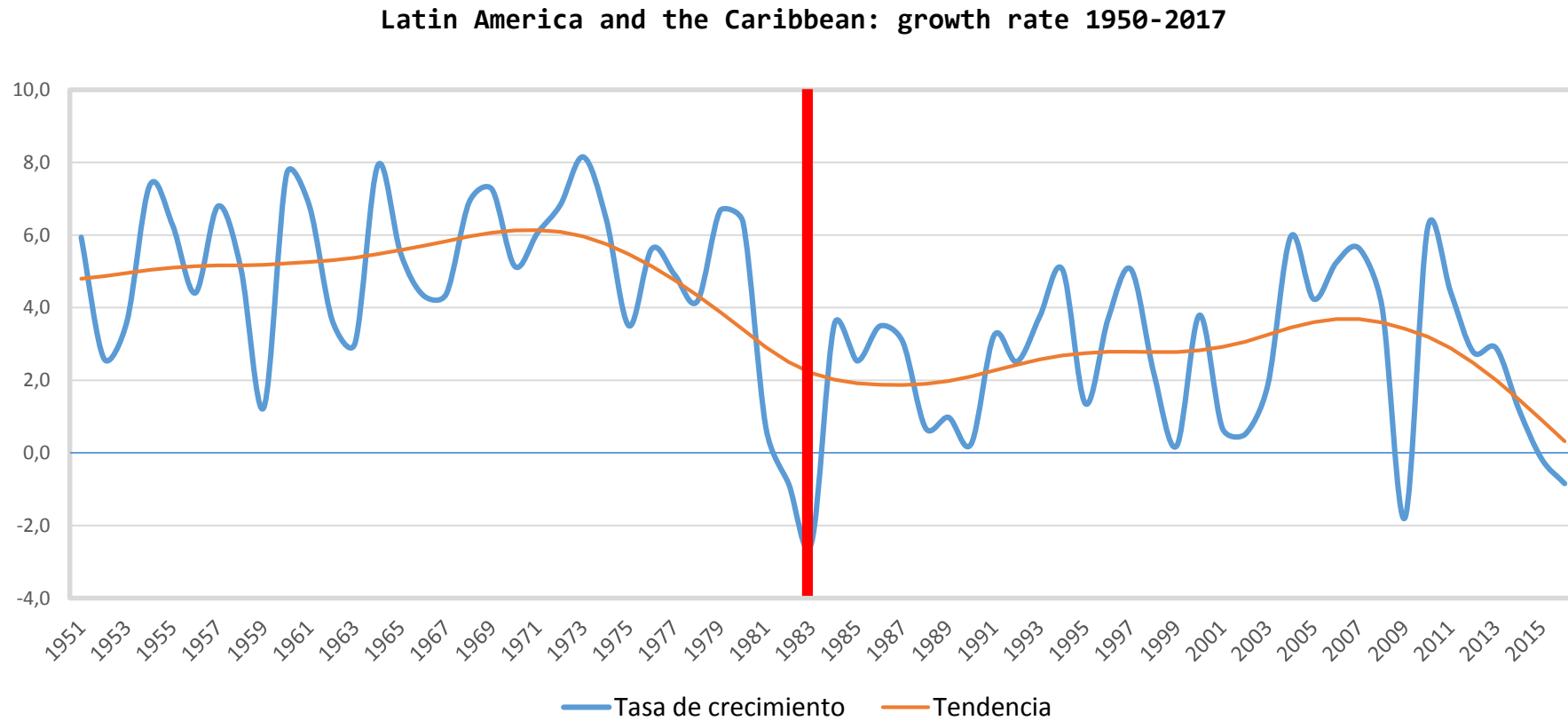
- Development is not a succession of stages characterized by common and homogeneous defining characteristics
- Countries do not have the same means, instruments and capacity at their disposal to confront development challenges and transit through different stages of development
- Countries can be vulnerable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

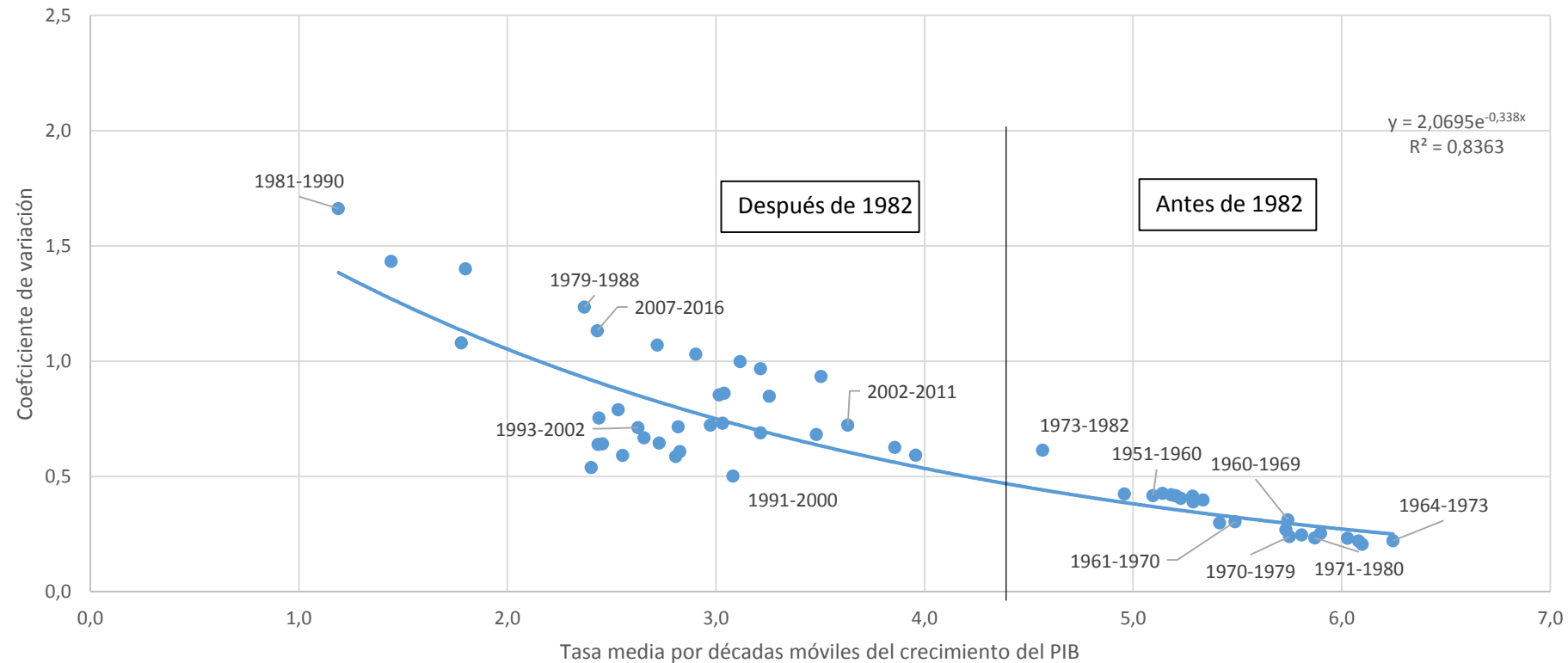
Why rethinking development in Latin America and the Caribbean

Low growth since the lost decade



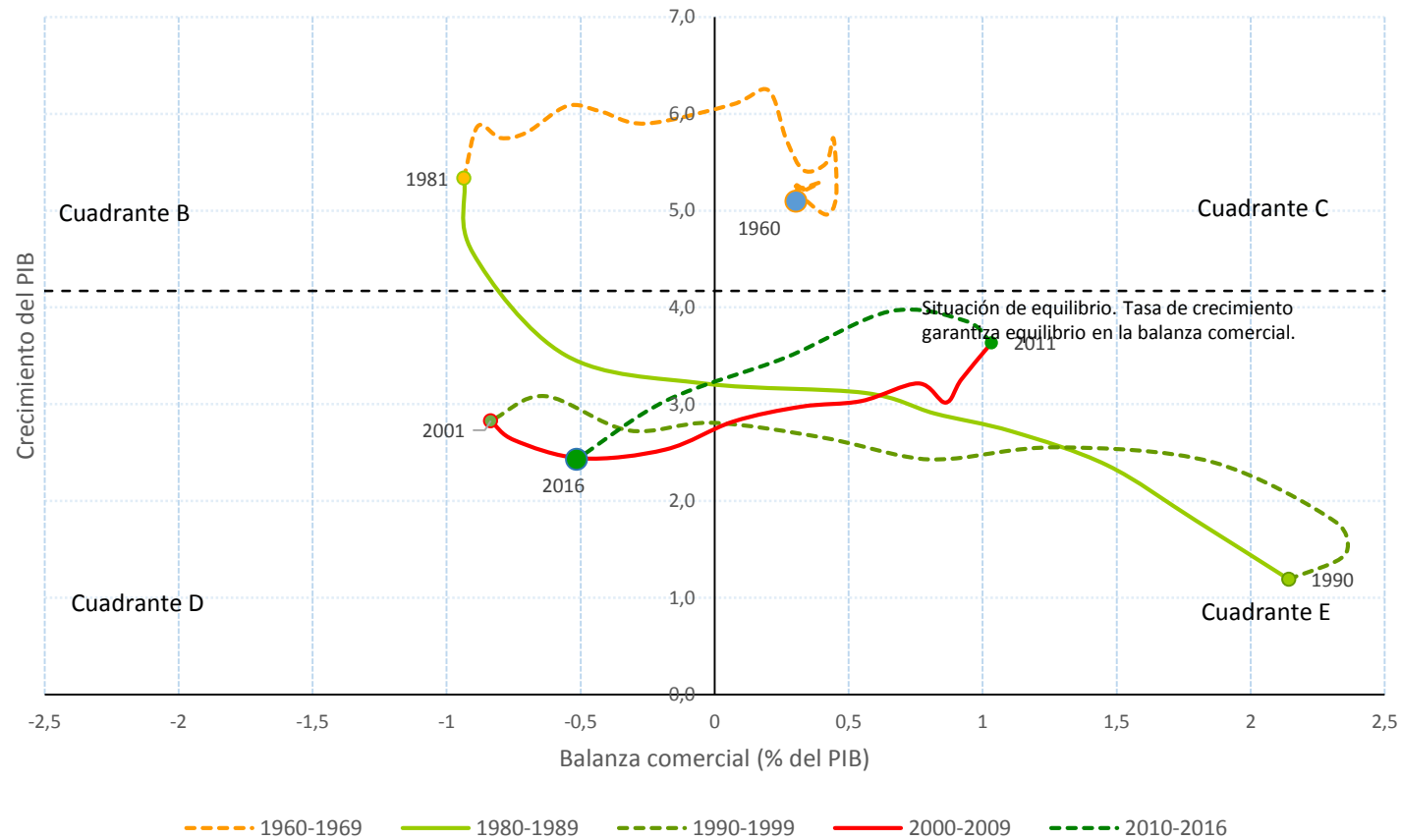
After the 1980s growth has been extremely volatile

Growth volatility in Latin America for mobile decades
1950-2016 (Percentages)



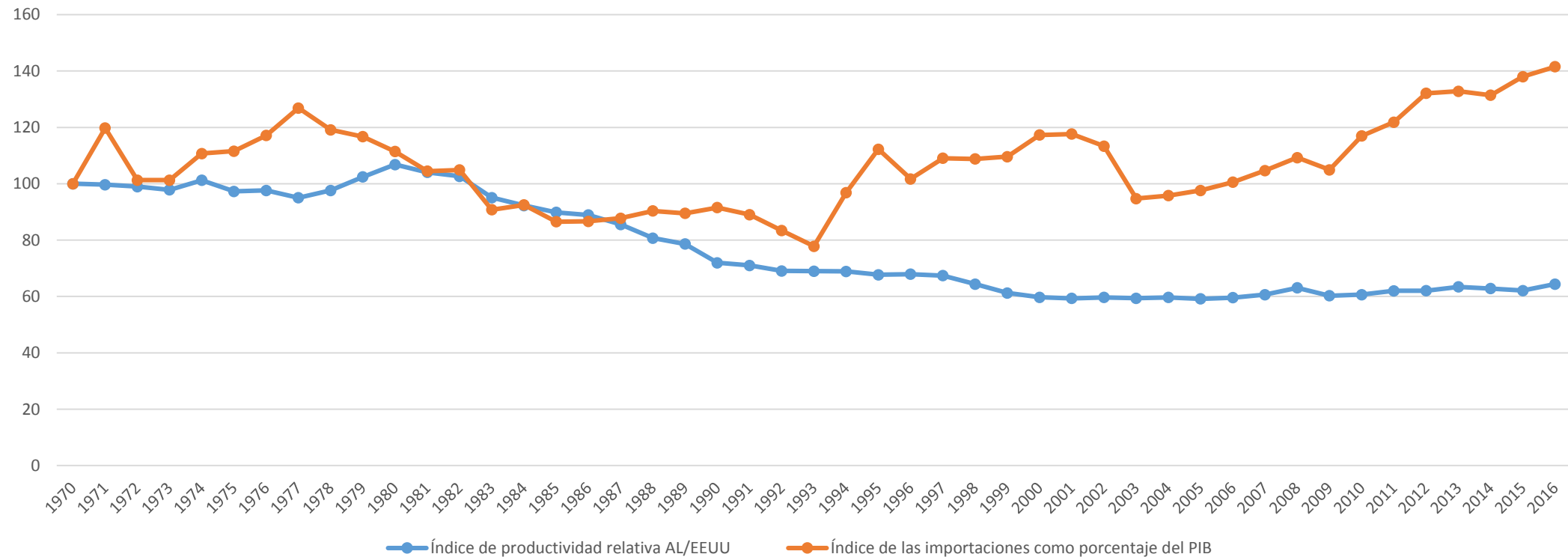
The structural (un)sustainability of growth

Growth and the trade balance restriction in Latin America and the Caribbean, 1950-2016
(Percentages, mobile decades)



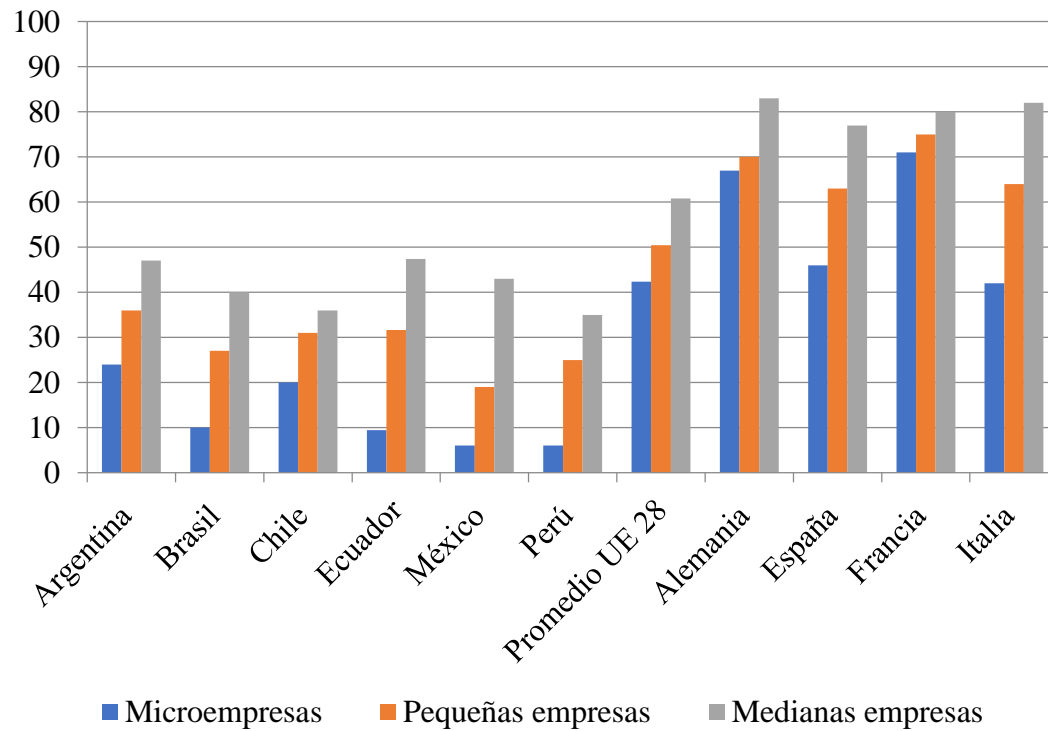
LAC Achilles' hill: low productivity and the productive structure (I)

Latin America: relative productivity wrt the united states and index of imports on gdp 1970-2016
(1970 = 100)

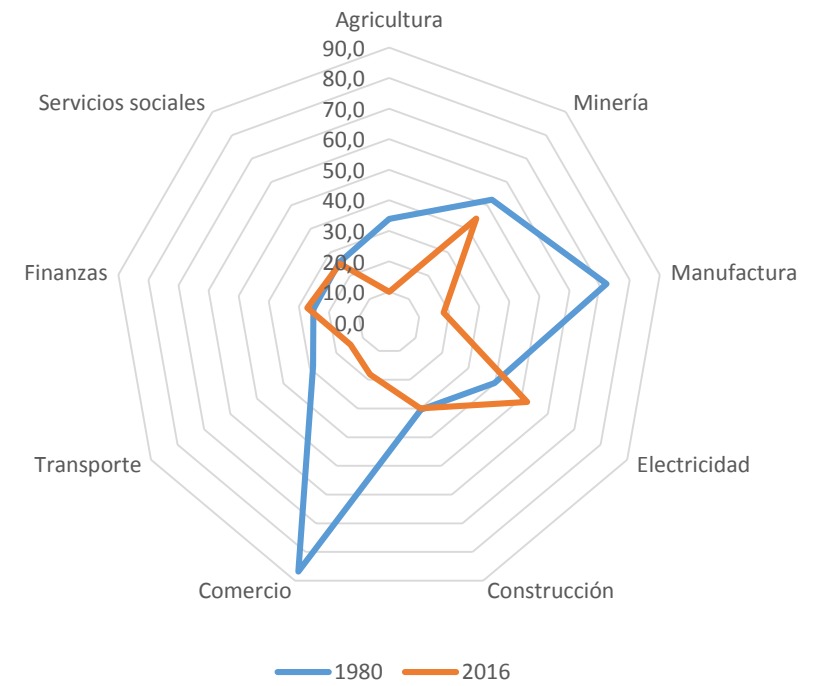


LAC Achilles' hill: low productivity and the productive structure (II)

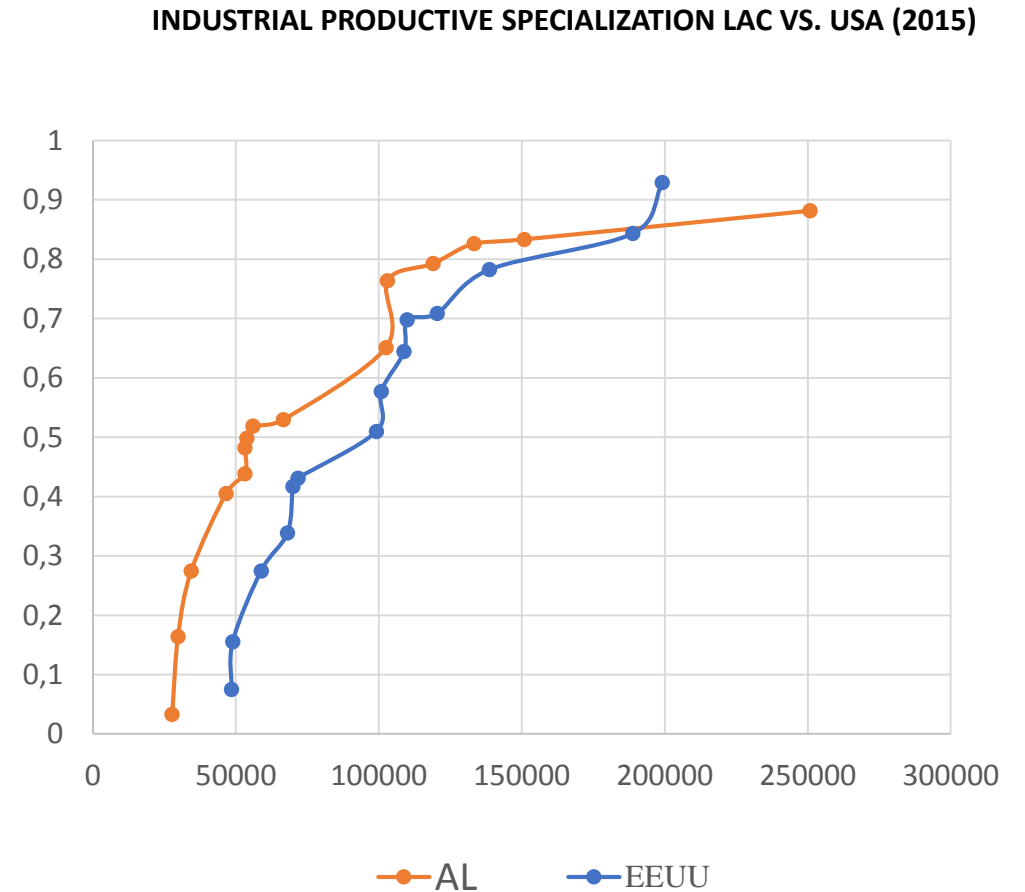
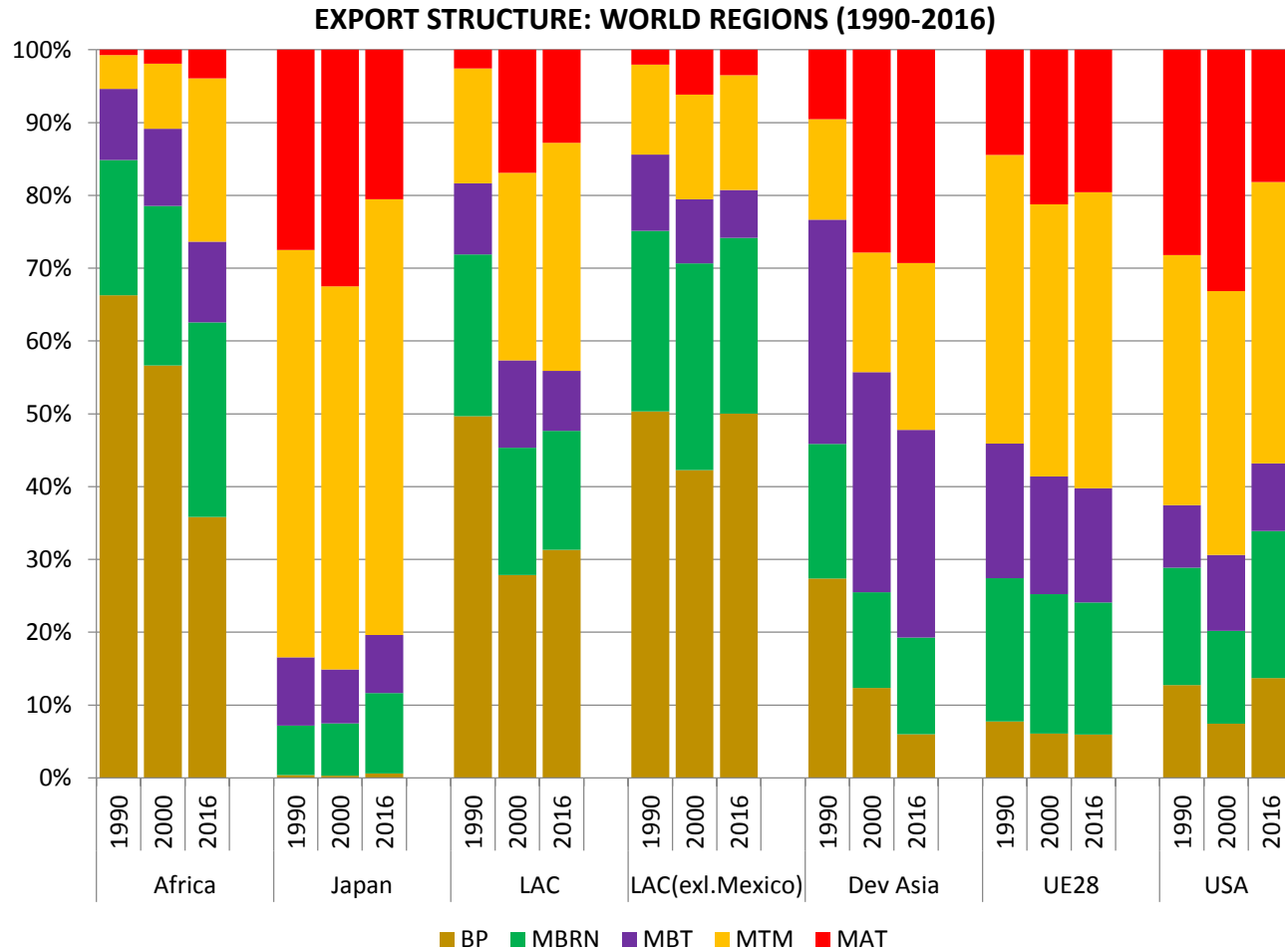
Selected countries: Internal relative productivity (2015)



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

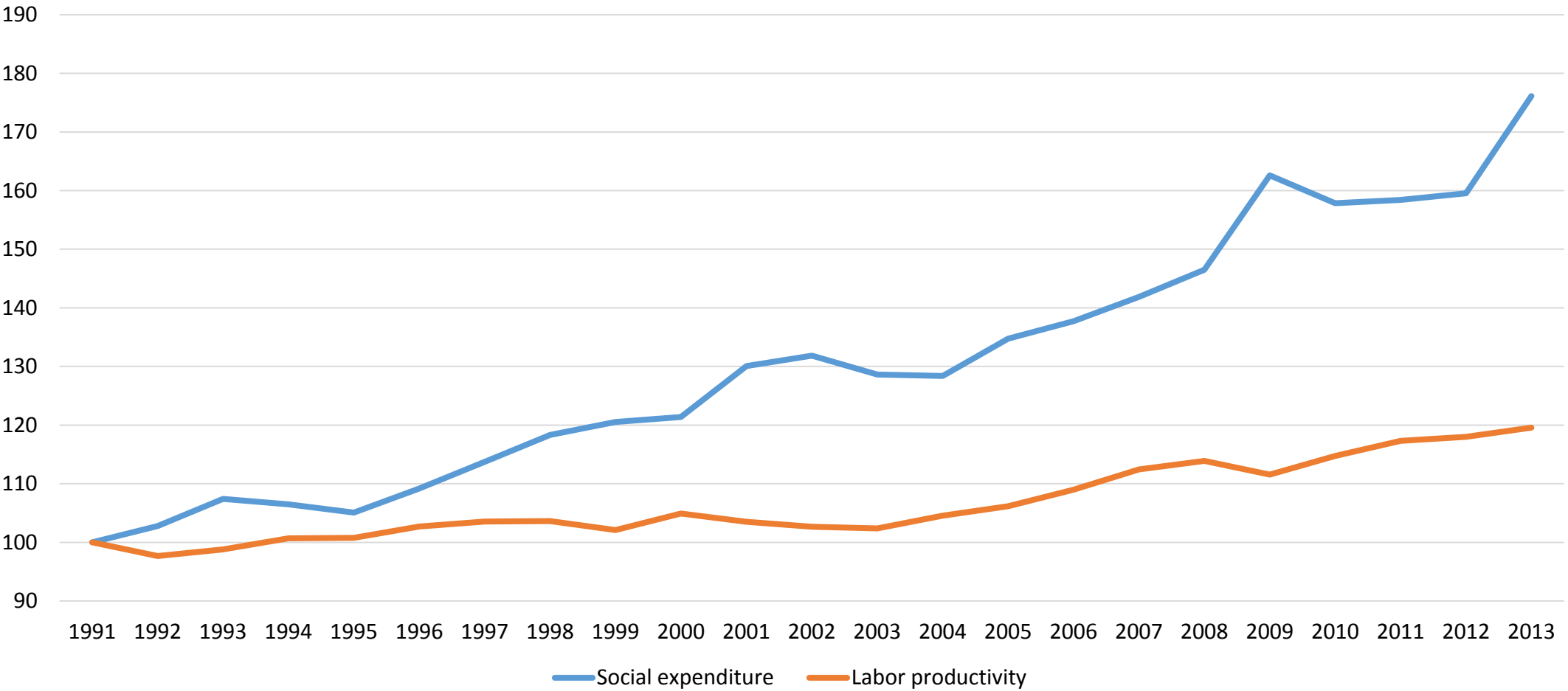
Antes de las reformas	Inmediatamente después de las reformas	Después de después de las reformas	Después de las reformas	Países	Antes de las reformas		Inmediatamente después de las reformas		Después de después de las reformas		Después de las reformas	
					Elasticidad de las importaciones	Brecha productividad*	Elasticidad de las importaciones	Brecha productividad	Elasticidad de las importaciones	Brecha productividad*	Elasticidad de las importaciones	Brecha productividad
1970-1990	1991-2000	2001-2016	1991-2016	Argentina	0.07	0.61	4.06	1.18	1.29	0.75	0.52	0.73
1970-1989	1990-2000	2001-2016	1990-2016	Brasil	0.59	0.39	5.33	1.41	5.26	0.75	3.64	0.75
1970-1984	1985-1998	1999-2016	1985-2016	Chile	0.65	0.71	1.98	0.79	1.79	0.66	1.55	0.69
1970-1989	1990-1999	2000-2016	1990-2016	Colombia	0.68	0.46	5.47	0.68	0.22	0.87	0.75	0.86
1970-1985	1986-2000	2001-2016	1987-2016	México	0.82	0.53	3.67	0.8	1.03	0.76	1.19	0.74
1970-1989	1990-2000	2001-2016	1990-2016	Perú	0.42	-0.6	2.54	1.13	-4.72	0.76	-4.72	0.89
1970-1977	1978-2000	2001-2016	1978-2016	Uruguay	1.53	-0.46	3.13	1.06	1.80	0.77	1.35	0.76

$$\frac{e_i}{e_e} \approx \frac{\pi_i}{\pi_e}$$

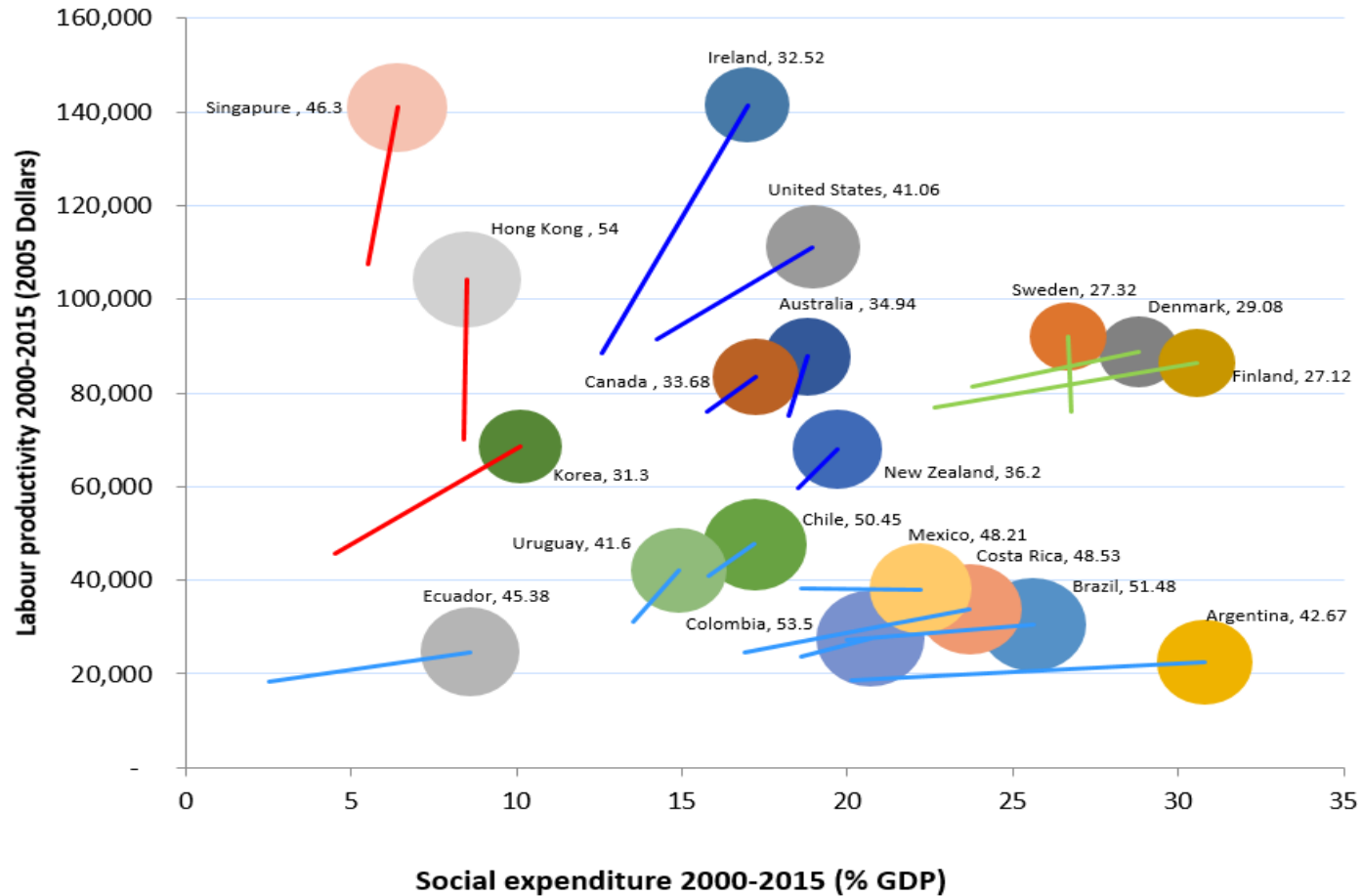
If holds true dynamically:
Specialization sustainability

The sustainability of social expenditure

LAC: Social expenditure and labor productivity (1991-2015)



The virtuous link: productivity and equality



Rethink Development in LAC: a theoretical proposal

Development view	Orthodox (mainstream)	Moderate(mainstream)	Evolutionary/structuralist
Micro (choice of technology)	Relative prices, static view, reversible, continuum space	Plus market failures	Learning, accumulation of capabilities, path dependency
Industrial structure	Non issue , sectoral homogeneity, capital labour composition ad choice	Imperfect competition and regulation	Sectoral (firm) heterogeneity, opportunity, contribution to productivity
Structural change	Static and market selection (natural rate of unemployment)	Around the comparative advantages	Engine of development (Unrelated/related activities, productivity /employment)
Industrial policy	“the best industrial policy [beign] none al all”	Policy to correct market failures	Active , horizontal and selective (sector, firms and technologies)
Macro prices	Flexibility	Flexibility and control of extreme volatility	Competitive real exchange rate (and interest rate)
Macro & industrial development	Stochastic General equilibrium	Expansionary fiscal consolidation hypothesis	Keynesian /Schumpeterian world

Albert O. Hirschman: **The Rhetoric of Reaction**

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.