Development strategies in comparative perspectives: Asia and Latin America

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Latin America’s experience of the 80’s and the 90’s

- The region’s policy agenda - profound economic reforms and greater trade liberalization - succeeded in some areas, but not in others.
Achievements...

- More dynamic exporting sectors
- Higher flows of FDI
- Better macroeconomic management
- Modernization of productive sectors
However...

- Insufficient and volatile economic growth
Economic growth: 1950-2004
Ten year moving average

Latin America
Industrialized Countries
Asian Developing Countries
Volatility of growth: 1950-2004
Ten year moving average (Coefficient of variation)
However...

- Insufficient and volatile economic growth
- Insufficient export growth
Exports of goods in take-off years
(initial year = 100)
Export growth: Better performance

Growth in export volume (annualized rates)
(Export value deflated by export price index, 2000 = 100)

1990-2003: LAC without Mexico = 7.6%
What rate of export growth is needed when income elasticity of imports is very high?

KOREA (variables expressed in logarithms)

THAILAND (variables expressed in logarithms)

LATIN AMERICA AND THE CARIBBEAN
(variables expressed in logarithms)
However...

- Insufficient and volatile economic growth
- Insufficient export growth
- Low impact of exports on growth

- most countries tend to specialize in goods that are not playing a dynamic role in world trade.
- weak linkages between export sectors and domestic economic activities
The difference is not only export growth, but also export composition.
And it is not only about export composition

Source: ECLAC, on the basis of official information of INEGI (Mexico)
However...

- Insufficient and volatile economic growth
- Insufficient export growth
- Low impact of exports on growth
  - most countries tend to specialize in goods that are not playing a dynamic role in world trade.
  - weak linkages between export sectors and domestic economic activities
- Social exclusion
  - Unemployment and job insecurity
  - Growth of the informal sector
  - Little reduction of extreme poverty
Extreme poverty
Latin America and the Caribbean, South Asia and East Asia and the Pacific, 1981 – 2004 (%)
Why the region has not been able to create linkages and to add knowledge to exports?

- Lack of adequate policies
  - Investment in education and R&D
  - More focused strategy
  - Targeting and attracting hi-tech FDI and upgrading in products and processes
  - Variability of rules of the game and volatility of GDP
  - Exchange rate volatility
(coefficient of variation)
Why the region has not been able to create linkages and to add knowledge to exports?

- Lack of adequate policies
  - Investment in education and R&D
  - More focused strategy
  - Targeting and attracting hi-tech FDI and upgrading in products and functions
  - Variability of rules of the game and volatility of GDP
  - Exchange rate volatility

- Escalating tariffs in the developed world for agricultural goods
Tariff escalation in the developed countries

**EUROPEAN UNION**
- Copper: 6.9%
- Fruit: 12%
- Sugar: 21%

**USA**
- Copper: 1.4%
- Fruit: 8.3%
- Sugar: 18%

**JAPAN**
- Copper: 8.3%
- Fruit: 18%
- Sugar: 21%

Legend:
- Raw Materials
- Processed Goods
A few salient features of East Asia’s success:

- Strong export orientation.
- Building advanced capabilities in national enterprises and exploiting them in world markets for fast growing products.
- Using existing capabilities to be part of global production systems.
- A rapid rise in the saving rate closely associated with rapidly rising profit shares.
- A rapid pace of capital accumulation and a shift towards industry and technological upgrading.
Saving and investment rates
(US$ current prices)

**KOREA**

**MALAYSIA**

**THAILAND**

**CHINA**
National saving rose in 2004
The Agenda for LAC should include

- Policies to reduce “real” volatility, increase national savings and promote domestic financial development

- Productive policies: open economy-oriented policies to speed the rate of innovation (adopting, adapting and creating), industrial diversification, improve competitiveness and encourage dynamic, knowledge-based, comparative advantages.

- Institutional development and public-private partnership

- Social cohesion pact
However...

- Each region and country has a unique structure of production and their own history of development.
- There are no uniform patterns of growth

But

- Active policies towards trade, capital flows and FDI and fostering productive development cannot guarantee economic success. But, success without them seems to be the exception rather than the rule
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