

Globalization in Latin America: why are people so disappointed?

“It is a general opinion amongst the Latin-American populations that in the sharp contrasts arising from globalization, the negative aspects dominate ... to the extent that it has effectively meant the globalization of poverty.” Mexican Catholic Cardinal Norberto Rivera

Since the late 1980s and throughout the 1990s, Latin America was the prototype of market-oriented reforms (with Chile being the pioneer in the late 1970s). A majority of governments in the region engaged in significant trade liberalization, far-reaching privatization programs, reduction in the role of government in the economy, and similar measures. These “structural reforms” were carried out in the hope of attaining renewed economic growth in the global economy, after the so-called “lost decade” marred by the foreign debt crisis, hyperinflation and stagnation that the region experienced for the most part of the 1980s.

Also, as a part of the reforms, several countries embarked in ambitious integration efforts through a series of free trade agreements (FTAs) within the region and with countries in other parts of the world. The two more important being Mexico’s becoming part of NAFTA and the Mercosur lead by Brazil. In particular, these FTAs were supposed to mark these countries’ long-term commitment to free market policies and integration to the global economy.

Ten years later, to many people the reforms appear to have borne little fruit and, as the President of the Inter-American Development Bank has put it:

“In general, there is a widespread sense of disenchantment: 75% of the people in our region believe that poverty has increased during the 1990s,

67% see the distribution of income as unfair, and a similar proportion consider that their countries are not making social or economic progress”¹.

Furthermore, according to the UN’s Economic Commission for Latin America (ECLA/CEPAL), while in 1980 the number of poor people in the region was 135 million, in 1990 increased to 200 million and reached 204 million in 1999².

These perceptions raise serious concern in view of the large number of countries in Latin America and the Caribbean that have implemented deep reforms to stabilize their economies and integrate with the world market³. This leads us to an increasingly rooted perception in the region:

PERCEPTION.- In Latin America, market-oriented reforms and integration to the global economy have negatively affected the majority of population, increasing poverty and income inequality. The benefits have been small and only for the better-off individuals and companies.

The main objective of structural reforms and trade liberalization policies was to increase these economies’ competitiveness in the global economy. And greater competitiveness would in turn translate into faster growth, more jobs and higher incomes for their population.

A number of studies have concluded that structural reforms opened the region to international flows of trade, technology and investment with an important pay-off for growth, of between 1.5 and 2 percentage points⁴.

The next chart illustrates change in income groups in Latin America. One major difference if compared with the global set of data: the share of people below PPPUS\$ 1800 per capita has decreased as shown for the world as a

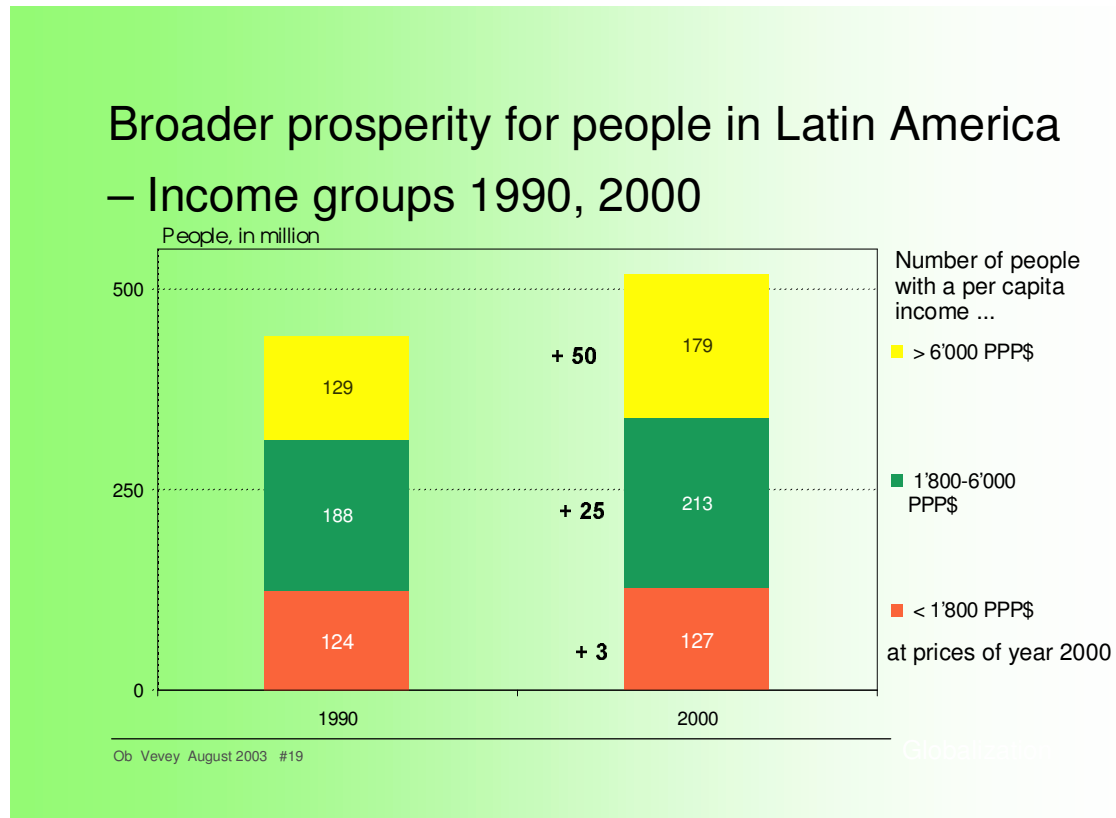
¹ Iglesias. (1999).

² Ocampo. (1999).

³ Ibid.

⁴ Iglesias. (1999).

whole, but the total number still slightly increased (this contrary to the trend observed worldwide).



But a lot still remains to be done. In most Latin American countries, policy reforms were incomplete or partial, and in most countries major weaknesses remained, such as the institutional and legal framework and lack of fiscal discipline. In a competitive world the lack of a constant improvement in a country's competitiveness, will prevent a general increase in economic growth and incomes for the majority of the population (gains will only be limited and uneven), regardless of their development level.

According to numerous studies on international competitiveness, such as the World Competitiveness Report (International Management Development Institute), Latin American countries have barely improved in recent years and remain far away from that of developed countries, and even within developing economies it lags to many Southeast Asian and Central

European economies. Further, in several Latin American countries (like Argentina and Venezuela) competitiveness as measured by IMD has even deteriorated.

WORLD COMPETITIVENESS SCOREBOARD

Ranking as of April 2001

Country	2001	2000	1999	1998	1997
USA	1	1	1	1	1
Singapore	2	2	2	2	2
Finland	3	4	5	6	7
Luxembourg	4	6	3	3	8
Netherlands	5	3	4	4	4
Hong Kong	6	12	6	5	3
Ireland	7	5	8	7	10
Sweden	8	14	14	16	19
Canada	9	8	10	8	6
Switzerland	10	7	7	9	12
Chile	24	25	25	27	24
Brazil	31	31	34	35	34
Mexico	36	33	35	34	40
Argentina	43	41	33	30	28
Colombia	46	45	45	45	45
Venezuela	48	46	44	46	44

Source: IMD. 2002.

There is abundant and consistent evidence showing that there are some key factors that directly influence a country's economic performance and where Latin American countries in general have made only modest progress, if not worsen, especially if compared to the global trend. The most important are: a) the legal and institutional framework and the eradication of corruption; b) a thorough deregulation of economic activities (including the elimination of both public and private monopolies); and, c) the rigidity of labor markets.

These factors are summarized in the Heritage Foundation's Index of Economic Freedom. Most countries have improved over the last 8 years, but many of them with short or prolonged periods of slippages (indicated by

gray sections in the table). For seven out of the 26 countries listed the 2003 index is worse then the one for 1995 (entire line in gray).

Heritage Foundation's Index of Economic Freedom – 1995-2003
Countries ranked according to degree of openness in 2003

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003
Chile	2.60	2.55	2.20	2.15	2.10	2.00	2.00	1.85	2.00
Bahamas	2.25	2.10	2.05	2.05	2.20	2.20	2.15	2.05	2.15
Barbados	--	2.90	2.70	2.50	2.60	2.50	2.40	2.30	2.20
El Salvador	2.65	2.45	2.40	2.40	2.15	2.00	1.95	2.05	2.25
Uruguay	2.90	2.85	2.65	2.65	2.65	2.55	2.35	2.55	2.50
Trinidad/Tobago	--	2.60	2.60	2.60	2.50	2.35	2.50	2.45	2.60
Bolivia	3.10	2.70	2.70	2.60	2.75	2.65	2.40	2.70	2.65
Costa Rica	2.90	2.95	2.95	2.95	2.95	2.85	2.65	2.65	2.65
Panama	2.40	2.50	2.50	2.40	2.40	2.40	2.55	2.70	2.65
Belize	2.70	2.75	2.75	2.95	2.85	2.80	2.70	2.70	2.75
Guatemala	3.05	2.85	2.70	2.70	2.65	2.70	2.70	2.80	2.80
Jamaica	2.90	2.80	2.70	2.70	2.70	2.50	2.80	2.90	2.80
Mexico	2.85	3.10	3.25	3.30	3.20	3.00	2.95	2.90	2.80
Peru	3.30	2.90	2.90	2.85	2.55	2.45	2.50	2.75	2.80
Argentina	2.75	2.55	2.60	2.30	2.10	2.10	2.25	2.50	2.95
World average	3.07								2.99
Brazil	3.30	3.55	3.45	3.45	3.30	3.50	3.25	3.10	3.00
Honduras	3.25	3.30	3.35	3.25	3.45	3.35	3.35	3.15	3.00
Nicaragua	4.00	3.60	3.70	3.50	3.60	3.60	3.45	3.15	3.00
Dominican Rep.	3.40	3.20	3.10	3.20	3.10	2.90	2.85	3.00	3.10
Colombia	2.90	3.05	3.05	3.00	2.90	2.90	2.95	2.85	3.00
Guyana	3.60	3.30	3.30	3.40	3.20	3.20	3.35	3.20	3.20
Paraguay	2.65	2.65	2.65	2.80	2.80	2.80	3.20	3.10	3.30
Ecuador	3.20	3.10	3.00	2.90	3.00	3.10	3.45	3.45	3.45
Venezuela	3.00	3.50	3.40	3.40	3.30	3.30	3.55	3.65	3.50
Haiti	4.40	4.40	4.10	4.10	4.00	4.00	3.90	3.80	3.60
Cuba	4.85	4.85	4.85	4.85	4.85	4.75	4.75	4.75	4.45

Source: The Heritage Foundation, Index of Economic Freedom. Temporary deterioration in the scores/deterioration over entire period 1995-2003

Latin American countries made reform efforts in the early 1990s, but with the exception of Chile⁵ none of the Latin American countries strengthened its judicial system to protect property rights, nor did any of them ease regulations on starting and operating, primarily, a small and medium-sized business. But all of these areas are key to long-term economic growth and prosperity. Without these conditions economic reform cannot be sustained. This partial opening of markets does not mean free markets. According to Ana Eiras this is one of the reasons why liberalism did not deliver prosperity in Latin America.⁶

As a result there remain serious shortcomings today in the region's institutions. Unpredictable judicial outcomes and legal requirements make investors and citizens wary, and the workings of the state and of the marketplace are not always synchronized for maximum efficiency. A chronic "democracy gap" leaves vast sectors of the population out of the market process, and many potential human resources untapped⁷. Mainly as a consequence of this inadequate legal and institutional framework, corruption is another important factor that severely hampers international competitiveness. It not only deters private investment, but also imposes important additional costs on any economy and its citizens.

In the Global Corruption Report (2001)⁸, which ranks 91 countries according to their perceived corruption levels, Latin American countries perform poorly, with the exception of Chile (the country also ranking highest in competitiveness). It is no coincidence that of the 10 most competitive countries in the world, 6 also rank amongst the 10 countries with the least corruption levels, and the other 4 are within the first 20.

⁵ With an average overall score between 1.85 and 2.10 Chile is the best ranked Latin American country since 1999: Rank 9 (score 1.85) in 2002 and Rank 16 (score 2.00) in 2003.

⁶ Eiras (2003), p. 3–4.

⁷ Iglesias. (2000).

⁸ Transparency International. (2001).

Perceived corruption, 2001

Rank	Country	Index !/
1	Finland	9.9
2	Denmark	9.5
3	New Zealand	9.4
4	Iceland	9.2
5	Singapore	9.2
6	Sweden	9.0
7	Canada	8.9
8	Netherlands	8.8
9	Luxembourg	8.7
10	Norway	8.6
18	Chile	7.5
46	Brazil	4.0
50	Colombia	3.8
51	Mexico	3.7
57	Argentina	3.5
69	Venezuela	2.8

!/ The Index ranges between 10 (highly clean) and 0 (highly corrupt)

Source: Global Corruption Report 2001.

By contrast, in Latin America only Chile ranks within the first 20 countries; and from the countries considered in the competitiveness table, Brazil ranks 46, Colombia 50, Mexico 51, Argentina 57, and Venezuela 69. In all cases, they stand in the second half of the countries included in the report.

Another significant constraint for Latin America's competitiveness is the lack of flexibility in the labor market derived from an anti-competitive legal framework. In most countries, labor laws and institutions were established several decades ago, when their economies were mostly closed to international trade and the import-substitution policy was the basis of economic policy. Where the labor market has not liberalized, unemployment rates have increased substantially, and this phenomenon is not particular to Latin America; the same conditions have widely been documented in many countries, regardless of their development stage⁹.

⁹ Tille-Yi. (2001).

Moreover, significant labor market segmentation is an important contributor to inequality in Latin America and the Caribbean. Rural workers earn nearly 30% less than urban workers of similar characteristics; urban formal workers make about 20% more than their informal counterparts and within the informal sector women make a quarter of what men earn. These income differentials reflect the rigidities caused by regulations that govern formal employment¹⁰.

In sum, even though the region's economic performance during the past decade somewhat improved over the 1980s (a fact that it often is ignored), most countries have not seen many of the benefits that liberalization and integration to the global economy were supposed to bring about. Income growth and inequality have improved only slightly, if not worsened in several countries. And job creation and the reduction of poverty continue to be a cause for serious concern.

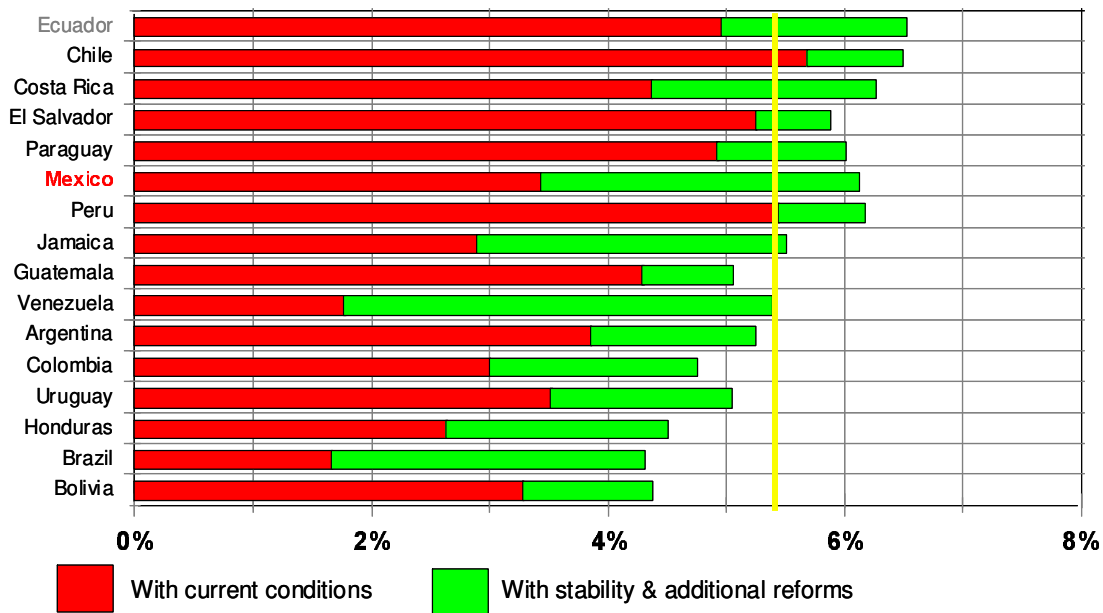
But this has not been the consequence of globalization, but rather from the failure to implement changes and reforms that are a "must" to successfully integrate to the world economy.

Since reforms have only gone half-way, domestic factors remain the primary constraints on the region's performance. It has been estimated that should Latin American countries carry out the different pending reforms, the region's average economic growth could almost double and in several countries it would more than double¹¹.

¹⁰ Iglesias. (2000).

¹¹ Hausmann, R. (1999)

Latin America's Current and Potential Growth



The challenge is also for governments to enhance the quality of governance, requiring an accountable public administration able to administer and enforce the rules honestly and efficiently¹².

Again, as the President of the Interamerican Development Bank (IDB) has made it clear:

“The lessons we have learned are many. While the private sector correctly assumes a leadership role in the economy, it needs the support of strong state institutions, the rule of law, effective public and private market institutions as well as active political participation of civil society in democratic processes. Good governance is now recognized as a necessary and sometimes missing ingredient in the reform process”¹³.

¹² Ibid.

¹³ Ibid.