

SEMINAR

on

*Management of Volatility, Financial
Liberalization and Growth in Emerging Economies*

ECLAC Headquarters, Santiago

Conference Room II

April 24-25, 2003

**LATIN AMERICA'S GROWTH FRUSTRATIONS:
THE MACRO AND MESOECONOMIC LINKS**

José Antonio Ocampo

LATIN AMERICA'S GROWTH FRUSTRATIONS: THE MACRO AND MESOECONOMIC LINKS*

José Antonio Ocampo **

Whereas the return of moderate rates of economic growth in 1990-1997 generated positive evaluations of Latin America's reform efforts (see Edwards, 1995; IDB, 1997; and World Bank, 1997), the new "lost half-decade" of 1998-2002 has brought an extensive reevaluation of these early assessments (ECLAC, 2003a; Kuczynski and Williamson, 2003). The new development strategy has been effective in generating export dynamism, attracting foreign direct investment (FDI) and increasing productivity in leading firms and sectors. In most countries, inflation trends and budget deficits have been effectively brought under control, and confidence in the macroeconomic authorities has increased. Nonetheless, economic growth has been frustratingly low and volatile, and domestic savings and investment have remained depressed. Overall productivity performance has been poor, largely as a result of a growing underutilization of the available labor force. Increasing productive and labor market dualism has become one of the most distinctive effects of the reform process, with the expansion of "world class" firms (many of them subsidiaries of multinationals) coinciding with increasing unemployment and labor market informality.

This paper evaluates the poor growth record of the reform period in the light of both macroeconomic and sectoral (mesoeconomic) performance. Section I looks at macroeconomic performance. Section II reviews the literature on growth and liberalization, and presents additional evidence. Section III considers sectoral and structural performance. Section IV suggests a structuralist interpretation of this evidence.

I. MACROECONOMIC PERFORMANCE

The most salient economic advance in the 1990s was the increasing confidence in the region's macroeconomic authorities generated by improvements in fiscal conditions and reductions in inflation rates. On average, central-government budget deficits declined significantly in the second half of the 1980s, remained in an average range of between 1% and 2% of GDP through most of the 1990s, but have increased to levels of around 3% since 1999. Progress in this area has been uneven across the region, as reflected in the fiscal crises that some countries have experienced in recent years, and the high public-sector debt ratios that continue to characterize several countries. Progress in the fight against inflation has been more uniform and long-lasting. Average inflation in Latin America fell steadily up to 2001, when it reached single

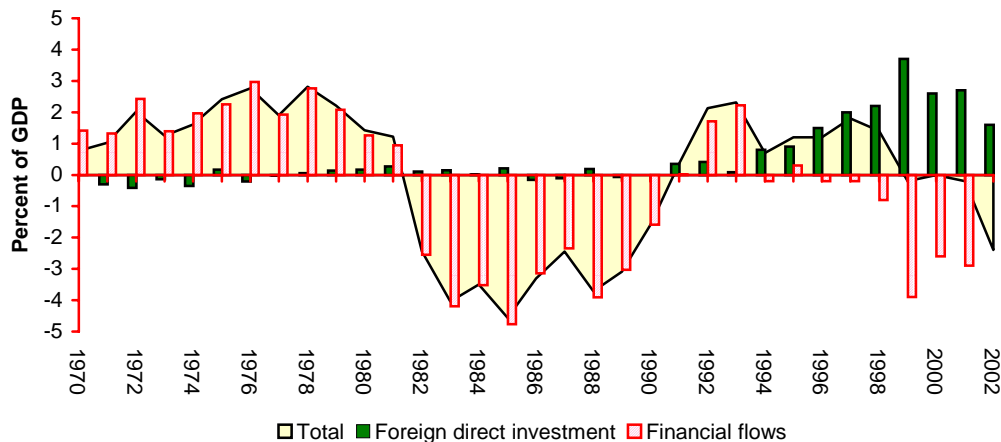
* Paper prepared for the Seminar on *Management of Volatility, Financial Liberalization and Growth in Emerging Economies*, organized by ECLAC with the support of the Ford Foundation, ECLAC Headquarters, Conference Room II, Santiago, Chile April 24-25, 2003.

** Executive Secretary, United Nations Economic Commission for Latin America and the Caribbean, ECLAC.

digits in most countries. Setbacks in 2002, when average inflation increased for the first time in a decade, were concentrated in a few countries, particularly Argentina and Venezuela.

Nonetheless, the expectation that advances in the fiscal area and control of inflation would be reflected in access to stable external capital flows, high investment rates and strong economic growth did not materialize. Renewed access to capital markets was evident in the early 1990s. As Figure 1 indicates, there was a sharp turn from negative to positive net resource transfers through the capital account in the early 1990s. Financial flows played the key role in the early part of this reversal, but it was replaced by FDI since the mid-1990s. The Asian crisis generated a return to large negative resource transfers through financial flows, indeed in magnitudes similar to those of the 1980s. FDI served as a compensatory factor up to 2001, but its sharp fall in 2002 generated a large negative overall net resource transfer for the first time in more than a decade.

Figure 1
Net resource transfers



Source: ECLAC, on the basis of IMF data.

Although renewed growth had characterized a handful of Latin American economies in the second half of the 1980s, broad-based growth only took off in the early 1990s and was closely associated to renewed capital flows. Capital flows facilitated structural reforms and exchange-rate-based stabilization policies and, in turn, the boom in external financing was facilitated by reforms (through more liberal capital account regulations and privatization, which induced larger FDI flows, among other channels). However, the broad-based deceleration in growth that took place in 1995-1997 and, particularly, in 1998-2002 indicates the prominent role of capital flows --and, particularly, *financial flows*-- as determinants of medium-term growth trends in Latin America. Thus, although trade and domestic factors also played a role, fluctuations in the capital account became the major single determinant of the Latin American business cycle.

Overall, long-term growth has been frustratingly low. For the period 1990-2002 as a whole, the average growth rate, of only 2.6% a year or 1.0% per capita, was less than half the level experienced by Latin America between 1950 and 1980, namely 5.5% per year or 2.7% per capita (Table 1). The comparison of total rather than per capita growth rates is more appropriate, as the demographic transition adversely affected per capita trends in the period of State-led industrialization, while the opposite was true in the 1990s, when the region benefited from a “demographic bonus”. This is reflected in the fact that the labor force grew in the 1990s at rates quite similar to those that characterized the period 1950-1980. Indeed, as Table 1 indicates, GDP per active worker slowed down more sharply than GDP per capita, a fact that is consistent with other measures of productivity performance presented below (see Section III).

Table 1
Latin America's growth and volatility

	1950-1980	1980-2002	1990-2002
Average GDP growth			
Weighted average	5.5	1.9	2.6
Simple average	4.8	2.0	2.9
Large and median countries	5.2	2.0	2.8
Small countries	4.5	2.0	2.9
Average GDP per capita growth			
Weighted average	2.7	0.1	1.0
Simple average	2.1	0.0	0.9
Large and median countries	2.4	0.2	1.1
Small countries	1.8	-0.2	0.8
Average GDP per worker growth			
Weighted average	2.7	-0.7	0.1
Simple average	2.4	-0.9	0.0
Large and median countries	2.7	-0.8	0.1
Small countries	2.2	-0.9	0.0
GDP growth volatility			
Weighted average	1.4	2.2	2.0
Simple average	3.8	4.2	3.4
Large and median countries	3.4	4.6	3.9
Small countries	4.2	3.9	3.1
ICOR			
Simple average	3.8	11.4	6.7
Large and median countries	4.1	15.8	7.4
Small countries	3.6	8.1	6.2

Source: ECLAC

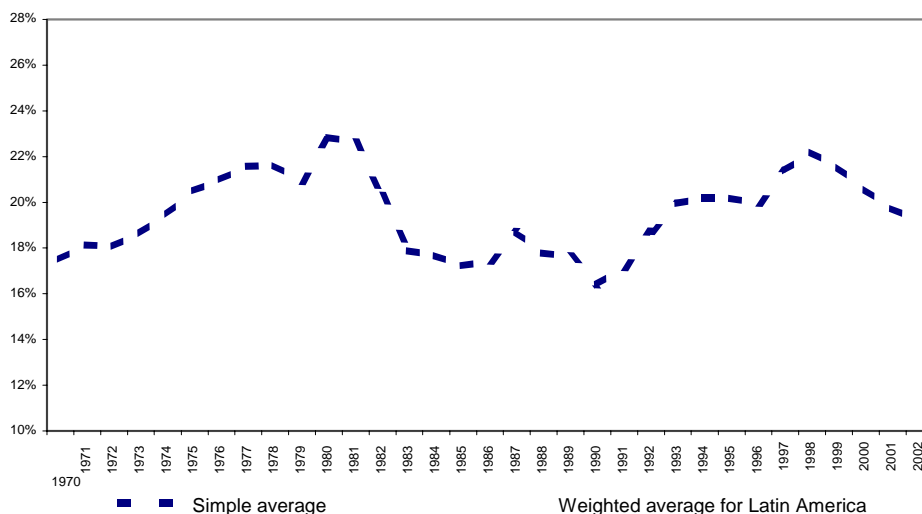
Large and median countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Venezuela

Macroeconomic policy management has been partly responsible for the sensitivity of economic growth to capital flows, for some features of the productive restructuring process and for the propensity to domestic financial crises. Indeed, a particular features of the reform period has been the institution of *automatic stabilizers* (Stiglitz, 2002), associated in particular with *private* rather than public-sector deficits and balance sheets. This has generated tensions between macroeconomic policies and reform objectives. In particular, the strong bias in favor of currency appreciation that characterized the periods marked by an abundance of external financing was

partly responsible for the adjustment problems faced by tradable sectors in several countries, as well as for the speculative attacks and the increased risks of domestic financial crises that arose when there was a sudden stop in capital flows. Also, the tendency to adopt procyclical fiscal and, particularly, monetary and credit policies --which foster lending booms and drops in interest rates during periods of expansion, as well as marked monetary contraction and high interest rates during crises-- has been an underlying cause of unstable economic growth and national financial crises. About half of the Latin American countries experienced domestic financial crises during the 1990s, absorbing considerable fiscal and quasi-fiscal resources and affecting the very functioning of financial systems, sometimes for extended periods of time (ECLAC, 2002b, and 2003a, chapter 3; Ffrench-Davis, 2003; Ocampo, 2002b).

Dependence on external financing was also associated with a *structural* deterioration in the trade balance/growth trade-off (see below) and a high degree of sensitivity in the trade balance to economic activity. The tendency to substitute foreign for domestic saving, which characterizes periods of intense capital inflows, played a similar role. More broadly, domestic savings remained depressed in the 1990s, making investment highly dependent on external savings at the margin. Investment rates experienced a partial recovery --particularly if the simple rather than the weighted average is considered, indicating that smaller countries did better in this regard--, but this was cut short by the interruption of capital flows since the Asian crisis (see Figure 2). Beyond that, however, the investment-growth link has deteriorated, as reflected in the high incremental capital-output ratios that have characterized the reform period, in both large and medium-sized as well as small countries (see Table 1 again). This issue has not been extensively analyzed, and reflects the fact that volatile growth leads to a high average rate of underutilization of production capacity, reducing investment productivity (Ffrench-Davis, 2000), as well as the significant destruction of capital generated by the reform effort and, in some case, the high capital intensity of some of the leading sectors induced by structural reforms. As we will see below, these results also call into question the assumed link between reforms, the investment climate and investment efficiency.

Figure 2
Fixed Investment as a percentage of GDP
 (estimated at 1995 prices)



Source: ECLAC.

This mixed record indicates that macroeconomic policies should be based on a broad definition of stability that recognizes that there is no single correlation between its alternative definitions and that significant trade-offs may be involved. Cross-country evidence indicates, indeed, that all forms of macroeconomic instability --high inflation, as well as real instability and the frequency of domestic financial crises-- have adverse effects on growth (Loayza et al, 2002).

Two lessons of the recent historical period are particularly important in this regard. The first is that *real* instability is very costly. A narrow view of inflation targeting may thus be as damaging as past macroeconomic practices that underestimated the costs of inflation. Recessions entail a significant loss of resources that may have long-run effects: firms may sustain irreparable losses in terms of both tangible and intangible assets (tacit technological and organizational knowledge, commercial contacts, the social capital accumulated in the firm, its goodwill, etc.); the human capital of the unemployed or the underemployed may be permanently lost; and children may leave school and never return. The uncertainty associated with variability in growth rates may consequently have stronger effects on capital accumulation than moderate inflation. Indeed, it encourages "defensive" microeconomic strategies (i.e., those aimed at protecting the existing corporate assets of firms that find themselves in an unfriendly environment) rather than the "offensive" strategies that lead to high investment rates and rapid technical change.

The second lesson is that private deficits are just as costly as public-sector ones. Moreover, risky private balance sheets may be as damaging as flow imbalances. In financially liberalized economies, both may interact in non-linear ways with capital account shocks. The lack of strong prudential regulation and supervision typical of the early phases of financial liberalization is part, but certainly not the whole, story. Boom-bust cycles are an inherent aspect of financial markets. Private spending booms and risky balance sheets tend to accumulate during periods of financial euphoria and are the basis for crises once exceptional conditions normalize. During such bouts of euphoria, economic agents tend to underestimate the intertemporal inconsistency that may be involved in existing spending and financial strategies. When crises lead to a financial meltdown, the associated costs are extremely high. Asset losses may wipe out years of capital accumulation. The socialization of losses may be the only way to avoid a systemic crisis, but this will affect future fiscal (or quasi-fiscal) performance. Restoring confidence in the financial system takes time, and the financial sector itself becomes risk-averse, a feature that undermines its ability to perform its primary economic functions.

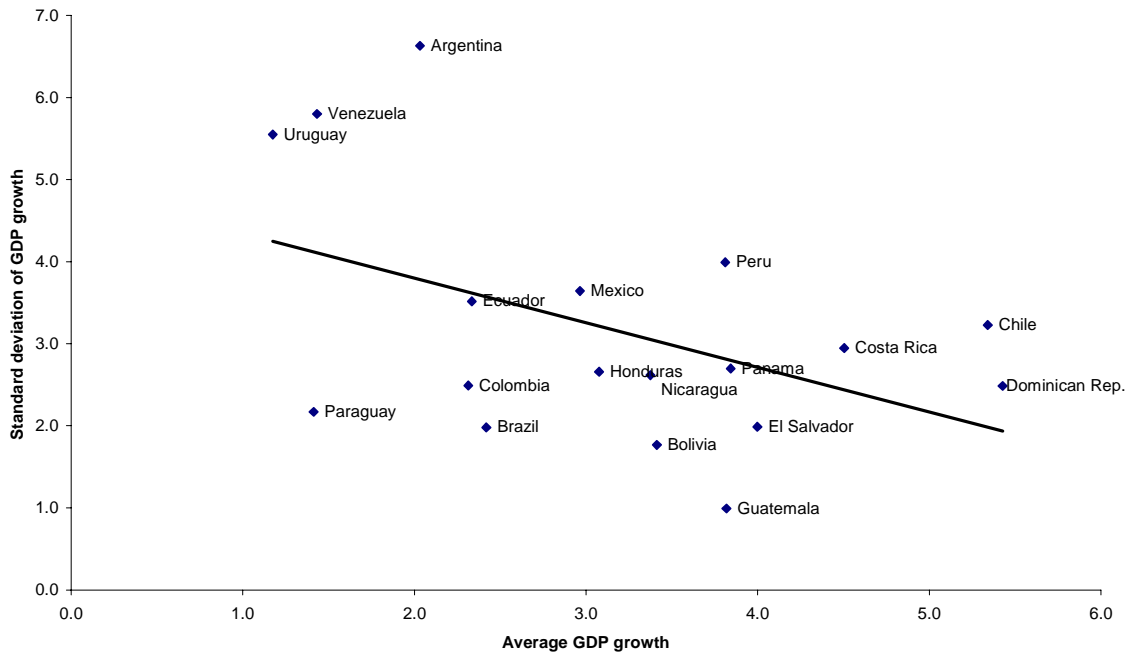
These two lessons are basically interconnected, due to the prominent role played by financial swings as a determinant of the Latin American business cycle. An essential task of macroeconomic policy is thus to manage them with appropriate countercyclical tools, based on the combination of three policy packages, whose relative importance will vary depending on the structural characteristics and the macroeconomic policy tradition of each country. The first is consistent and flexible macroeconomic --fiscal, monetary and exchange-rate-- policies aimed at preventing public or private agents from accumulating excessive levels of debt and at forestalling imbalances in key macroeconomic prices (exchange and interest rates) and in the prices of fixed and financial assets. The second is a system of strict prudential regulation and supervision with a clear countercyclical orientation. This means that prudential regulation and supervision should be tightened during periods of financial euphoria to counter the mounting risks incurred by financial

intermediaries. The third element is a liability policy aimed at ensuring that appropriate maturity profiles are maintained with respect to domestic and external public and private commitments. Preventive capital account regulations (i.e., those applied during periods of euphoria to avoid excessive borrowing) can play an essential role, both as a liability policy --encouraging longer-term flows-- and as an instrument that provides additional degrees of freedom for the adoption of countercyclical monetary policies (Ocampo, 2002b and 2003; Ffrench-Davis, 2003).

Managing counter-cyclical macroeconomic policies is no easy task, as financial markets generate strong incentives for developing countries to overspend during periods of financial euphoria and to overadjust during crises. Moreover, globalization places objective limits on national autonomy and exacts a high cost for any loss of credibility when national policy instruments are poorly administered. For this reason, it may be necessary for macroeconomic policy management to be supported by institutions and policy instruments that help to provide credibility, including fiscal stabilization funds and independent central banks. It also means that an essential role of international financial institutions, from the point of view of developing countries, is to counteract the procyclical effects of financial markets. This can be achieved by smoothing out boom-bust cycles at the source through adequate regulation and by providing developing countries with additional degrees of freedom to adopt countercyclical policies (e.g., adequate surveillance and incentives to avoid the build-up of risky macroeconomic and financial conditions during periods of financial euphoria, together with mechanisms to smooth out adjustments in the event of abrupt interruptions in private capital flows). The second, equally essential role is to counter the concentration of lending by providing access to those countries and agents that tend to be subjected to rationing in private international capital markets (ECLAC, 2002b; Ocampo, 2002a).

In any case, it must be clear that sharp financial cycles, procyclical policies and the resulting macroeconomic volatility are part, but certainly not the whole explanation for the poor growth record of Latin America during the reform period. This fact is highlighted in Figure 3. There is, indeed, a strong negative association between macroeconomic volatility (as measured by the standard deviation of the GDP growth rate) and growth, but this link is associated with the poor growth record of economies with very high GDP volatility (Argentina, Uruguay and Venezuela). The rest have lower volatility but still a poor average growth record.

Figure 3
Volatility and growth, 1990-2002



II. GROWTH AND STRUCTURAL REFORMS

Is it the extent of economic liberalization (structural reform, in the current terminology) that explains these results? This issue has been explored in the recent literature with no conclusive results. The mere comparison of the recent growth record with that achieved during the age of the State-led (or import substitution) industrialization contradicts the view that there is a strong association between economic liberalization and growth. Indeed, it is symptomatic of the weakness of the current association that even supporters of economic liberalization now regard the stage of State-led industrialization period as a "golden age", and the growth rates achieved during that period as the objective towards which Latin America should strive for.¹ On the other hand, the evidence presented above on weak investment performance and high incremental capital-output ratios calls into question any simple association between economic liberalization, an improved investment climate and investment efficiency.

Evidence coming from ECLAC research indicates that links between reforms and growth have been, at best, weak: some reforms had positive effects on growth but others had negative effects, and these impacts balance out to a statistically insignificant overall net effect. Furthermore, even if their long-term effect were neutral or positive, their short-term impact was clearly negative (Escalaith and Morley, 2001; Stallings and Peres,

¹ See Kuczynski and Williamson (2003), pp. 305 and 29, respectively.

2000).² These results are consistent with the results of Lora and Panizza (2002) when compared with the earlier evidence presented in Lora and Barrera (1998), both of which used the Inter-American Development Bank reform indexes. Whereas the earlier paper estimated strong effects of reforms on growth, the latter only calculated weak temporary effects. Furthermore, a close inspection of the tables of this recent paper indicates that this conclusion is not robust.

Although the World Bank has also claimed, based on recent research (Loayza *et al.*, 2002), that reforms had significant effects on long-term growth, they measure the effects of some long-term *characteristics* rather than *reforms*. Particularly, the results of the evidence that they present indicate strong long-term effects of human capital accumulation and infrastructure on economic growth. They also show somewhat weaker effects of effective trade openness and financial depth, but do *not* estimate those of trade and domestic financial *reforms*, as these factors (including openness) can be achieved with different degrees of public-sector intervention.

Indeed, there is a significant confusion in the debate derived from the tendency to mix *structural reforms* aimed at reducing the public sector's role in the economy and liberalizing markets with *macroeconomic stabilization* policies, as well as the tendency to confuse structural *characteristics* with structural *reforms* aimed at liberalization. Some aggressive reformers introduced liberalization together with major stabilization packages (e.g., Chile in the mid-1970s, Bolivia in the mid-1980s, and Argentina and Peru in the early 1990s), but this pattern was far from universal. The difference is substantial, as macroeconomic balances can be achieved with large differences in the degree of economic liberalization and, conversely, liberalized economies can maintain significant macroeconomic imbalances, as we saw above. Furthermore, there is evidence that, whereas macroeconomic balances are essential for growth, links between structural reforms and growth are at best weak (see, in this regard, Rodríguez and Rodrik, 2001). The latter statement is not inconsistent with recognition of the fact that some structural characteristics may affect economic growth --e.g., the accumulation of human capital, improved infrastructure, openness and financial depth-- since all of them may be achieved with quite different degrees of public-sector involvement.

A particular weakness of the recent literature has been the absence from cross country econometric exercises of the effects of capital account instability, the major determinant of the Latin American business cycle according to the previous section. Table 2 presents simple panel data evidence on the determinants of economic growth since the mid-1970s, the period characterized by severe capital account instability. A very simple model, largely based on external variables, explains close to two thirds of the variance of economic growth, when country-specific factors (fixed effects) are taken into account. According to the econometric results, financial flows and the growth of imports of industrialized countries exert the strongest effects on growth performance, but the impact of the first of these factors is twice as strong if the variance of the explanatory variable is taken into account. According to these results, the terms of trade and FDI do not have a statistically significant effect on growth (indeed, the estimated coefficient has a negative sign). On the other hand, the ability to avoid high inflation (over 40% a year) also had a strong effect, but moderate inflation --and thus its reduction to single-digit levels-- did not generate a significant effect. Nor did the path taken by the reform process, as

² See also the recent sensitivity analysis of Correa (2002).

measured by ECLAC's index of reforms, have a consistent statistically significant effect on comparative growth performance, as reflected in the variability of the estimated coefficients and their generally weak statistical significance.

III. INTEGRATION INTO THE WORLD ECONOMY AND PRODUCTIVE RESTRUCTURING

Weak growth performance cannot be attributed to the lack of success of economic liberalization in achieving one of their most direct objectives: increased integration into the world economy. Indeed, from 1990 to 2000, the region posted the fastest growth of export volumes in its history (close to 9% per year), higher than the rate achieved by world trade as a whole; the 2001-2002 world slowdown obviously interrupted this process. The strong growth of Mexican exports explains much of this strength over the 1990s, but the poor Brazilian export record in that period also brought the Latin American average down. Most other countries experienced healthy real export growth over the 1990s, close to 8% a year on average. On the other hand, although variable in terms of the strategies of the different multinationals involved, FDI boomed through the 1990s, as Figure 1 indicates.

Table 2
Determinants of GDP growth

	Coefficient (t-statistic)	Coefficient (t-statistic)	Coefficient (t-statistic)	Coefficient (t-statistic)	Mean (standard deviation)
Constant	0.0219 (1.06)	0.0223 (2.21)	Fixed effects	Fixed effects	0.0290 a/ -(0.0270) a/
Inflation (log)					
Bounded at 40%	-0.0110 -(0.47)		0.0195 (0.74)		0.1864 (0.1094)
Excess over 40%	-0.0114 -(2.48)	-0.0110 -(2.63)	-0.0127 -(2.52)	-0.0097 -(2.02)	0.1668 (0.5011)
Net resource transfers (% of GDP)					
Foreign direct investment	-0.5963 -(1.54)		-0.7972 -(1.89)		0.0054 (0.0103)
Financial flows	0.5932 (5.70)	0.6321 (6.28)	0.5940 (6.03)	0.6379 (6.69)	-0.0051 (0.0247)
Terms of trade (index)	-0.0083 -(0.88)		0.0005 (0.04)		1.0306 (0.2369)
Average growth of developed countries' imports	0.1217 (2.87)	0.1099 (2.61)	0.1250 (3.15)	0.1089 (2.75)	0.0343 (0.0558)
Reform index					
Initial value	0.0427 (1.66)	0.1022 (0.90)	0.0741 (2.46)	0.0210 (1.41)	0.6294 (0.1508)
Annual absolute change	0.0982 (0.81)	0.0183 (1.25)	0.1189 (1.00)	0.1080 (1.00)	0.0128 (0.0201)
R ²	0.5228	0.5013	0.6598	0.6330	

a/ Mean and standard deviation of dependent variable.

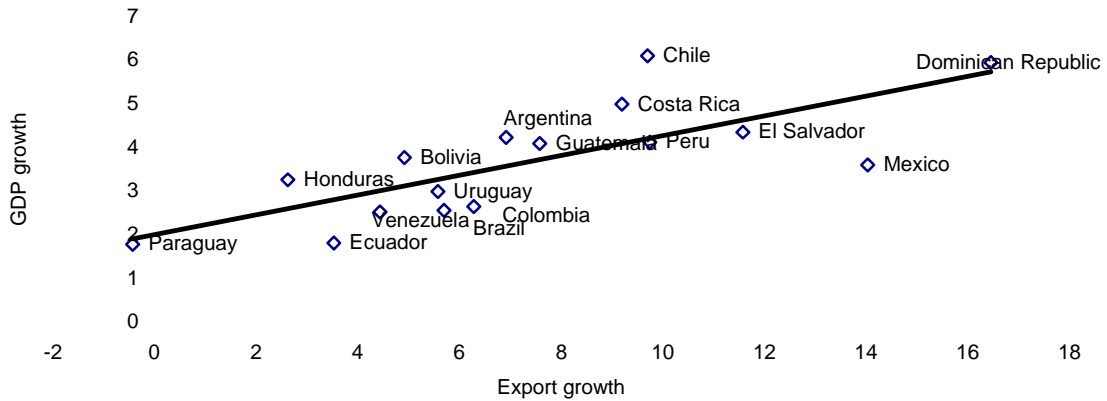
Note: Panel data estimates for all Latin American countries for the periods 1976-1980, 1981-1985, 1986-1990, 1991-1994, 1995-1997, 1998-2002, based on ECLAC data.

According to recent ECLAC analysis, integration into the world economy followed two basic patterns of specialization, which approximately follow a regional “North-South” divide (ECLAC, 2002a; Mortimore and Peres, 2001). The “Northern” pattern is characterized by manufacturing exports with a high content of imported inputs (in its extreme form, *maquila* exports), mainly geared towards the United States market, and attracts FDI associated with the development of internationally integrated production systems. This pattern goes hand in hand with traditional agricultural exports and agricultural export diversification in Central America, as well as the growth of tourism in Mexico and the Caribbean. The “Southern” pattern is characterized by the combination of extra-regional exports of commodities and natural-resource-intensive manufactures and diversified intra-regional trade, many of which are also capital-intensive, and mainly attracts FDI associated with the search for natural resources or access to domestic markets (in services, as well as large domestic and subregional markets). In the case of Brazil, this is mixed with some technology-intensive manufactures and services, and in Brazil and a number of other countries, with labor-intensive manufacturing exports. This implies that Mexico and some Central American and Caribbean countries have been participating to a greater extent in the more dynamic world markets for manufactures, whereas South America has focused on the less dynamic commodity markets. Nonetheless, a more detailed breakdown indicates that most Latin American countries specialize in goods that are not playing a dynamic role in world trade (ECLAC, 2002a and 2002c). There is also a third pattern of specialization, which is found in Panama and some small economies in the Caribbean Basin, in which service exports (financial, tourism and transport services) predominate.

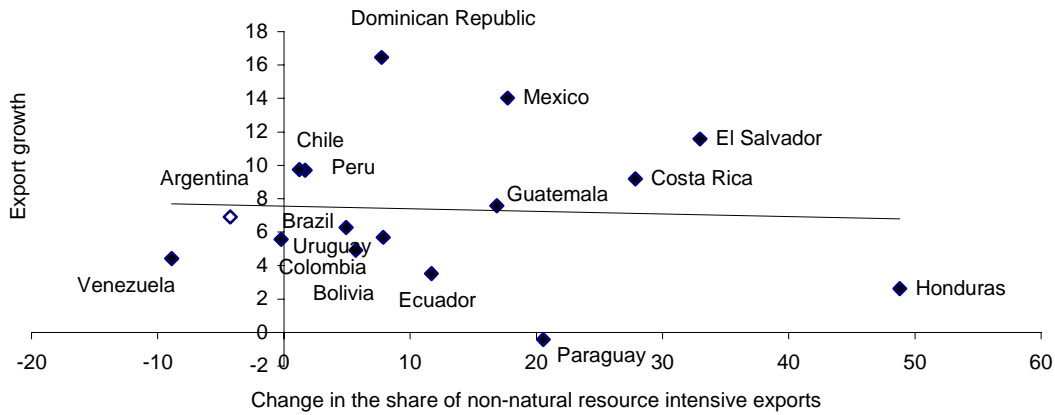
The contrast between the dynamic internationalization of the Latin American economies and the weak GDP performance comes clearly to the fore in Figure 4.A and, as we will see below, is *not* associated to the specialization pattern. Furthermore, as Figure 4.B indicates, it is not inconsistent with a strong cross-sectional correlation between export and GDP growth in Latin America. So, higher export growth has led to faster export growth in individual countries, but the export-growth link has weakened for all of them. This evidence may be interpreted as a sign of the weakening of the links between international trade, FDI and domestic production (and, thus, GDP), and it is thus contrary to the evidence much discussed in the literature of the 1970s and 1980s on the positive externalities of deeper integration into international markets. Indeed, it points out to a reduction in the domestic production and technological linkages of export sectors, which increasingly do their input and technological outsourcing in international markets, together with the simultaneous destruction of the production linkages generated by previous import-substitution sectors unable to reconvert into export activities, or able to do so only through increased imports of intermediate goods and services. Outsourcing by multinational firms, even in non-tradable sectors (e.g., services), has further contributed to the weakening of their domestic linkages. Thus, in a significant sense, many internationalized sectors have an increasing “enclave” component: they participate actively in international transactions but very little in the generation of domestic value added. Indeed, in this sense, the natural-resource-intensive sectors of the “Southern” pattern of specialization may provide more opportunities for the formation of domestic production and technological linkages than the assembly activities characteristic of the “Northern” pattern (see ECLAC, 2003b, chapter III, and World Bank, 2002).

Figure 4
Specialization patterns, export and GDP growth, 1990-2000

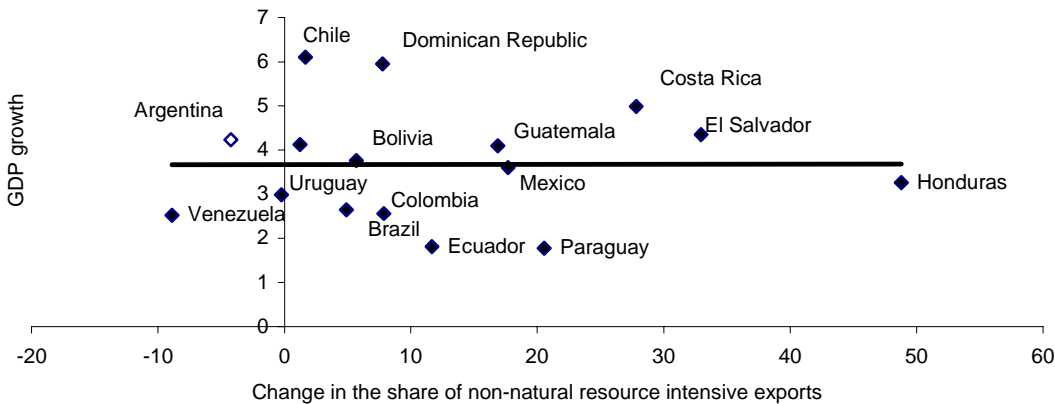
A. Export and GDP growth



B. Change in the share of non-natural resource intensive exports and export growth



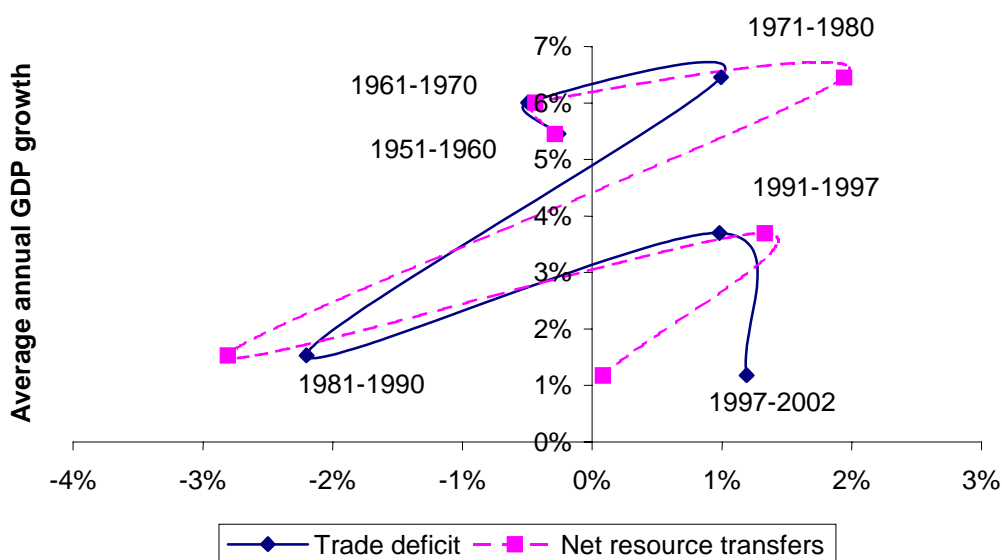
C. Change in the share of non-natural resource intensive exports and GDP growth



Source: ECLAC.

A particular way in which these transformations have affected macroeconomic aggregates has been the deterioration in the growth/trade deficit trade-off.³ The trade deficit tended to widen in 1991-1997, reaching levels comparable to those of the 1970s, but at growth rates that were close to three percentage points below those registered in that decade (see Figure 5). This was the joint effect of *structural* changes in production activities brought about by economic liberalization --including weaker domestic linkages of internationalized sectors-- and the short-term *macroeconomic* policy bias towards real currency appreciation generated by booming capital inflows. Heavy dependence on volatile external financing was, in this regard, an effect but also a cause of this deterioration. Interestingly, this worsening of the growth/trade deficit trade-off is even worse if the point of reference is the 1950s and 1960s, when rapid growth was consistent with small trade surpluses. This process worsened further during the recent "lost half-decade" of 1998-2002, when the trade deficit remained stubbornly high despite very slow economic growth; indeed, the relevant point of reference is in this case the 1980s, when Latin America also grew very slowly but generated a large trade surplus.

Figure 5
Trade balance/growth trade-off



Source: ECLAC.

At the sectoral level, some additional stylized facts may also be discerned.⁴ A paradoxical effect of policies aimed at deeper integration into the world economy was the relative dynamism of tradable vs. non-tradable sectors in many countries. Transport, communications, energy and

³ See a similar analysis in UNCTAD (1999), which shows that this deterioration has occurred throughout the developing world, except in China and some other Asian economies.

⁴ See ECLAC (2003a), chapters 4 and 5, Stallings and Peres (2000), Katz (2001), Moguillansky and Bielschowsky (2001) and, for agriculture, David (2000) and Ocampo (2000).

financial services, as well as construction, were indeed dynamic, particularly during the expansionary phases of the regional business cycle. Among tradable sectors, manufacturing generally suffered the most in comparison with its own historical record prior to the debt crisis. This was especially true in the more traditional, labor-intensive industries (apparel, footwear and leather manufactures, furniture, etc.), with the exception, in the latter case, of those industries associated with in-bond assembly (*maquila*) activities. The manufacturing sectors that performed better include *maquila* activities, the automobile industry (which is favored, in Mexico, by access to the United States market and, in South America, by special protection mechanisms provided by current integration arrangements), some natural-resource-processing industries and certain activities geared towards the domestic market during periods of booming demand (such as construction materials, beverages and food processing).

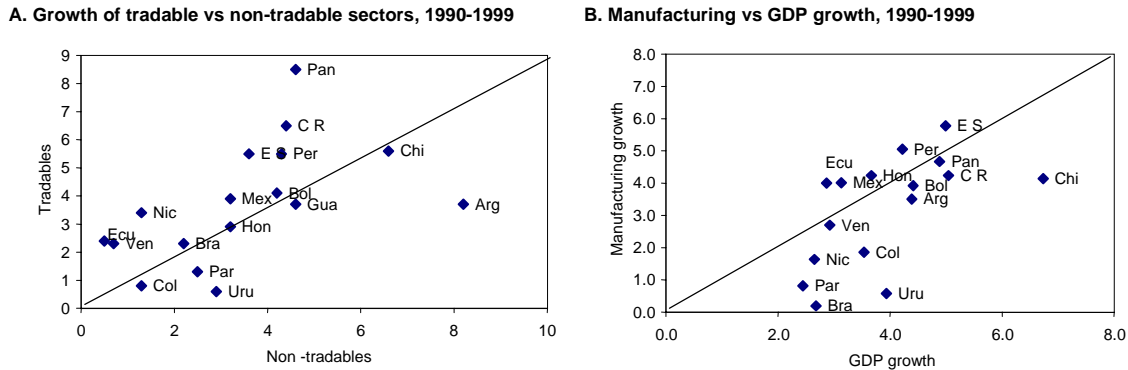
Agriculture also grew more slowly than it did before the debt crisis, with significant divergence in performance across the region. Moreover, some of the most dynamic activities in this sector followed long-term trends (e.g., the strong relative performance of soybeans or poultry production) unrelated to the reform process. Mining has tended to grow rapidly, but extraction activities have grown more rapidly than those that generate more value added (refining). Mining, like telecommunications and, to a lesser extent, energy, has benefited from institutional changes designed to open up opportunities for greater private-sector participation and FDI. In the case of mining resources, as well as FDI and intellectual property, an important feature of the reforms was stronger protection of property rights.

The mix between the growth of tradable and non-tradable sectors was diverse across the region through the 1990s and did not follow the Northern-Southern divide that characterized trade specialization patterns. The association between specialization patterns and the relative dynamism of manufacturing was, on the other hand, quite strong (ECLAC, 2003a). Economies specializing in manufacturing exports were characterized by the rapid relative growth of manufacturing production, while the opposite was true of economies that specialized in natural-resource-intensive exports. Employment trends --and, particularly, employment in manufacturing-- were also more positive under the Northern pattern (ECLAC, 2002a, ch. 10; Stallings and Weller, 2001).

It must be emphasized that, contrary to the literature on the "natural resource curse" and to the significant evidence of long-term and medium term deterioration of the terms of trade of primary commodities over the past two decades,⁵ neither export nor overall GDP growth has been associated with particular specialization patterns (Figure 6). Chile is the outstanding example of a country specializing in natural-resource-intensive exports that has also experienced rapid export and GDP growth. Ecuador and Venezuela are opposite cases. Mexico has extracted relatively slow GDP growth out of its outstanding export diversification and growth. In this regard, Costa Rica and El Salvador, and particularly the Dominican Republic, have done better in this regard. As was indicated, the high import content of manufacturing exports and the tendency to specialize in the technologically simpler tasks within internationally integrated production systems may, indeed, result in natural-resource-intensive exports generating more domestic value added and linkages than manufacturing exports.

⁵ See, on the latter, Ocampo and Parra (2003).

Figure 6
Patterns of structural transformation



Source: ECLAC

Slow GDP growth was associated with poor productivity performance, but the causal links involved must be carefully drawn. Particularly, the neo-classical link --which assumes that GDP is determined by productivity growth--, used in most of the literature, cannot be assumed to be the correct one. Even in manufacturing sectors, where productivity rose, the gap with the industrialized economies, particularly the United States, actually widened in many sectors in the 1990s. Indeed, in many countries and manufacturing activities, the productivity gap in relation to the United States narrowed more quickly during the 1970s and 1980s than during the 1990s, reflecting in part the slower pace of technological change in United States manufacturing during those previous decades. At the sub-sectoral level, the closing of the technology gap had more to do with the pace of economic growth in a particular sector and country than with patterns of technological catch-up induced by the reform process (Katz, 2001). Thus, for example, automobile production, for which selective instruments of protection were maintained, experienced productivity increases just as large as the natural-resource-intensive export activities, whereas import-competing sectors displaced by external competition did poorly in terms of productivity performance. Thus, the corresponding dynamics followed a Kaldor-Verdoorn pattern, in which growth determines productivity, rather than the opposite neo-classical causal link.

Agriculture also experienced a sustained increase in productivity, but this is a long-term trend that did not speed up to any significant extent during the 1990s (Dirven, 1997; Ocampo, 2000). Telecommunications, mining and, in some cases, energy are perhaps the sectors that most clearly demonstrate increases in productivity in the 1990s associated with the reform process as such, particularly privatizations and the growing role of multinational enterprises (ECLAC, 2003a, chapters 4 and 5; Stallings and Peres, 2000).

In more general terms, productivity trends reflect a large discrepancy between the positive evolution of this variable in a group of successful firms and sectors and a poor performance at the aggregate level. Growth in total factor productivity (TFP) slowed down relative to its pre-debt crisis pace (see Hofman, 2001, and Table 3). Furthermore, an analysis of the joint effects of productivity and trade elasticities (implicit in Figure 5) indicates that the

reduction in the technological gap vis-à-vis the result of the world was not enough to compensate the extraordinary increase in the elasticity of the demand for imports and the consequent deterioration of the trade multiplier (the ratio of the technological gap to the elasticity for imports), thus generating overall adverse effects on growth (Cimoli and Correa, 2003). The slowdown was sharper for labor productivity, as the estimates of productivity of the labor force in Table 1 indicate. Rising unemployment and, particularly, underemployment, largely due to poor overall economic growth, drove aggregate labor productivity. More broadly, overall productivity performance reflects the fact that labor, capital, technological capacity and, sometimes, land that were displaced from sectors and firms undergoing productive restructuring were not adequately reallocated to dynamic sectors. Again, the corresponding patterns followed a Kaldor-Verdoorn logic --e.g., slow growth led to poor productivity performance-- rather than the opposite neo-classical dynamic.

Table 3
Total factor productivity , 1950-2000

		1950-1980	1980-1990	1990-2000	1980-2000
Argentina					
	TFP	1.2	-2.3	2.8	0.2
	DATFP	0.6	-2.9	2.8	-0.5
Bolivia					
	TFP	1.6	-1.9	0.6	-0.7
	DATFP	0.5	-2.9	-0.6	-1.8
Brazil					
	TFP	2.6	-1.4	0.4	-0.5
	DATFP	1.4	-2.2	-0.5	-1.4
Colombia					
	TFP	2.4	0.4	0.6	0.6
	DATFP	1.4	-0.8	-0.1	-0.7
Chile					
	TFP	1.6	0.3	3.2	1.7
	DATFP	0.8	-0.5	2.2	0.8
Mexico					
	TFP	1.8	-1.1	0.9	-0.2
	DATFP	0.5	-1.9	-0.2	-1.1
Peru					
	TFP	1.9	-3.6	1.4	-1.1
	DATFP	1.0	-4.7	1.3	-1.7
Latin America					
Simple average					
	TFP	1.9	-1.4	1.4	0.0
	DATFP	0.9	-2.3	0.7	-0.9
Weighted average (1998 GDP)					
	TFP	2.0	-1.4	1.1	-0.1
	DATFP	1.0	-2.2	0.4	-1.0

Source: Data updated from Hofman (2001).

DATFP: Doubly augmented total factor productivity

These patterns of productivity performance bring to light one of the main features of the productive restructuring processes that characterized the region during the reform period: the increased diversity of production sectors and agents within each economy --i.e. increasing dualism (or "structural heterogeneity", using traditional ECLAC terminology). This indicates that the expectations that rising productivity in internationalized sectors would spread throughout the economy, thereby leading to rapid overall economic growth, turned out to be quite optimistic. Productivity *did* increase in dynamic firms and sectors, and external competition, FDI and privatization played an important role in that process. However, contrary to the expectations of reformers and the neo-classical links on which those expectations were based, positive productivity shocks did *not* spread out, but rather led to greater dispersion in relative productivity levels within these economies.

This is also an indication of the fact that restructuring was not "neutral" in terms of its impact on different economic agents. The major winners were the multinational corporations and large national firms in sectors with static comparative advantages, but domestic firms in import-substitution sectors and, particularly, many small and medium-sized enterprises, both urban and rural, were unable to compete and thus experienced high mortality rates. The performance of small firms was closely tied to the dynamism of the sectors where they have a large share in production.⁶

IV. A STRUCTURALIST (AND, PARTICULARLY, SCHUMPETERIAN-HIRSCHMINATE) INTERPRETATION OF PRODUCTIVE RESTRUCTURING UNDERWAY

Although macroeconomic dynamics go some way to understand why growth has been so frustrating, a more promising line of interpretation draws upon historical variants of structuralism in economic thinking, broadly defined. This view emphasizes the close connections among structural dynamics, investment and economic growth. According to this view, economic growth is not a linear process, in which "representative firms" grow or new representative firms respond to the "investment climate" generated by macroeconomic conditions and structural reforms. It is a more dynamic process in which some sectors and firms grow and move ahead while others fall behind, thereby completely transforming economic structures. This process involves a repetitive phenomenon of "creative destruction", to use Schumpeter's metaphor (1962, ch. VIII). Not all sectors have the same ability to inject dynamism into the economy, to "propagate technical progress", according to the concept advanced by Prebisch (1951). The complementarities (externalities) between enterprises and production sectors, along with their macroeconomic and distributive effects, can produce sudden jumps in the growth process or can block it (Rosstein-Rodan, 1943; Taylor, 1991; Ros, 2000) and, in so doing, generate successive phases of disequilibria, according to Hirschman's (1958) classic view. Under- or unutilized resources are essential to guarantee this dynamics and, thus, economies are not assumed to operate under full employment of resources. Since technical know-how and knowledge in general are not available in fully specified blueprints, the growth path of firms entails an intensive process of adaptation and learning, closely linked to production experience, that thus

⁶ See an extensive analysis of the issue of winners and losers in ECLAC (2003a), Stallings and Peres (2000) and Peres (1998) and of the dynamics of small firms in Peres and Stumpo (2000).

largely determines the accumulation of technical, commercial and organizational know-how, following an evolutionary path (see below).

The central theme of this literature is that the dynamics of productive structures is the basic determinant of changes in the momentum of economic growth. This dynamics obviously interacts with a stable macroeconomic environment, broadly defined, generating positive feedbacks that result in "virtuous" circles of rapid economic growth, but may also lead to the opposite outcome, if either of these elements is absent. A facilitating institutional environment, and an adequate supply of human capital and infrastructure, also play an essential role in this process, but only as "background conditions" rather than that of active determinants of the growth momentum (Ocampo, 2002c).

The ability to constantly generate new dynamic activities is, in this view, the essence of successful development. In this sense, growth is essentially a **mesoeconomic** process, as its essential determinant, structural dynamics, is a mesoeconomic phenomenon that summarizes the joint evolution of the sectoral composition of production, intra- and inter-sectoral linkages, market structures, the functioning of factor markets and the institutions that support all of them. Dynamic microeconomic changes are the necessary building blocks, but it is the **system-wide** processes that matter. Moreover, the characteristics of the structural transformation largely determine macroeconomic dynamics, particularly through its effects on investment and trade balances.

In this regard, the dynamics of productive structures may be visualized as the interaction between two basic forces, namely (1) *innovations* (the Schumpeterian link), broadly understood as new activities and new ways of doing previous activities, and the *learning and diffusion processes* that characterize both the full materialization of their potentialities and their spread through the economic system; and (2) the *complementarities, linkages or networks* (the Hirschman link) among firms and productive activities, and the *institutions* required for their consolidation, whose maturation is also subject to learning. As noticed, under- or utilized resources are essential to guarantee the elastic supply of factors of production that is an essential condition for these dynamic processes to unfold their full effects (see Ros, 2000). International factor mobility can also contribute to this result.

These different mechanisms provide complementary functions: innovations are the basic engine of change; their diffusion and the creation of productive linkages are the mechanisms by which they generate system-wide effects; learning and diffusion of innovations and the development of complementarities generate dynamic economies of scale, which is an essential ingredient of rising productivity; and the last factor determines the elasticity required of the system for the former to operate as the driving force of economic growth.

The best definition of innovations, in the broad sense that this concept is used here, was provided by Schumpeter (1961, ch. II) almost a century ago ("new combinations" in his terminology): (i) the introduction of new goods and services or of new qualities of goods and services; (ii) the development of new productive methods or new marketing systems; (iii) the opening up of new markets; (iv) the discovery of new sources of raw materials or the exploitation of previously known resources; and (v) the establishment of new industrial

structures in a given sector. Innovations may arise in established firms and sectors—in a constantly changing world, businesses that do not innovate will tend to disappear—but they involve many times the creation of new companies and the development of new sectors of production.

Innovation includes the "creation" of enterprises, productive activities and sectors, but also the "destruction" of others.⁷ The particular mix between "creation" and "destruction" is critical. The term coined by Schumpeter (1962), "creative destruction", indicates that there tends to be net creation. This is, of course, essential for growth, but is not necessarily the expected result in any specific location at a certain point in time. There may be cases in which there is in fact little destruction, or its opposite, large-scale destruction of previous economic activities, or a mixed negative case, "destructive creation". The more localized we see the effects of a given innovation, the more likely we will actually see the full typology, as some locations within the world economy may concentrate the "creative" and others the "destructive" effects of innovations (think, for example, of the discovery of a synthetic substitute that generates new activities in an industrial center but just leaves producers of the natural raw material located elsewhere out of business).

A common feature of the first four forms of innovation is that they involve the creation of knowledge or, more explicitly, of the capacity to apply it to production. They thus stress the role of knowledge as a source of market power. Following this approach, success in economic development can be seen as the ability to create enterprises that are capable of learning and appropriating knowledge and, in the long run, of generating new knowledge (Amsden, 2001).

In industrial countries, the major incentive to innovate is provided by the extraordinary profits that can be earned by the pioneering firms that introduce technical, commercial, or organizational changes, or which open new markets or find new sources of raw materials. This incentive is necessary to offset the uncertainties and risks involved in the innovators' decisions, as well as the higher costs in which they incur, due to the costs of developing the new know-how, the incomplete nature of the knowledge they initially have and the absence of the complementarities that are characteristic of well-developed activities. In developing countries, innovations are primarily associated to the spread of new products, technologies, organizational or commercial strategies previously created in the industrial centers. These represent the "moving targets" which generate the windows of opportunity open to developing countries (Pérez, 2001). The extraordinary profits of innovators are generally absent and, indeed, production usually

⁷ Viewed this way, the "innovations" that developing countries experienced in the past included the development of new export staples, the different phases of import substitution, and the reorientation of import substitution sectors towards exports. In recent years, they include the development of assembly productive activities as the result of the disintegration of production chains in the industrialized countries, the growing demand for some international services (e.g., tourism), the increased export orientation of previous import-substitution activities, privatization and the consequent restructuring of privatized firms and sectors, and the increased access to raw materials (particularly minerals) as the result of more liberal regimes of access to them. On the other hand, "destruction" of previous production capacities included in the past the elimination of staples as the result of the development of synthetic substitutes, or the contraction of production in a specific location as the result of the discovery of new sources of raw materials, and the elimination of artisan production unable to compete with mechanization. In recent years, it includes the disintegration of domestic productive chains as the result of increasing use of external markets as a source of inputs and capital goods, and the dismantling of research and development laboratories in privatized public enterprises bought by multinational firms which have their own centralized research and development.

involves entry into mature activities with thinner or, indeed, thin profit margins. Thus, *entry costs* are not associated to the development of new know-how, but to process of acquiring, mastering and adapting it, as well as those associated to generating information about and creating a reputation in new markets and, particularly, exploiting opportunities to reduce costs to successfully break into established marketing channels. Entry costs may turn out to be prohibitive for new firms; in this case, possibilities open to developing countries will be limited to attracting established multinationals willing to shift the location of production.

None of these processes is passive, as they require investment and learning. Innovations are, indeed, intrinsically tied to investment, as they require physical investments, as well as investments in intangibles, particularly in technological learning and the design of marketing strategies. Moreover, to the extent that innovative activities are the fastest growing of any economy at any point of time, they have high investment requirements. These facts, together with the falling investment needs that characterize established activities implies that the overall investment rate is directly dependent on the relative weight of innovative activities and on their capital intensity. High investment is thus associated to a high rate of innovation and structural change.

On the other hand, innovations involve learning. Technical know-how must indeed go through a learning and maturing process that is closely linked to the productive experience. More generally, to reduce the technology gaps that characterize the international economic hierarchy -- to “leapfrog” in a precise sense of the term,-- an encompassing research and development strategy, and an accompanying educational strategy, would be necessary. The essential insights on learning dynamics have been provided by the “evolutionary” theories of technical change.⁸ These theories emphasize the fact that technology is to a large extent tacit in nature --i.e., that “blueprints” cannot be completely spelled out. This implies that technology is incompletely available and imperfectly tradable, and that proficiency in its use cannot be detached from productive experience --and thus has a strong “learning by doing” component.

Given existing dualism —producers who are at very different stages in the organization of production and technology and who have varying degrees of access to information and to factor markets—, developing countries will always have a considerable mass of underemployment or informality. There may also be significant endogenous elements in investment and domestic savings. Moreover, while developing countries are behind in the areas of production, technology, and institutional development, there is always the possibility of proactively speeding up the learning of technology and the development of institutions. In such circumstances, the predominance of creative over destructive forces generates virtuous circles of rapid growth; at the global level, this is reflected in the absorption of an increasing number of workers in dynamic activities, the existence of significant investment opportunities, induced creation of savings, and accelerated learning of technology and development of institutions. At the same time, the predominance of destructive forces has the opposite effect, giving rise to a vicious circle that leads to increased structural heterogeneity as surplus manpower is absorbed in less productive activities; the reduction of investment incentives; the destruction of saving capacity, and the loss

⁸ See, in particular, Nelson and Winters (1982), Nelson (1996) and Dosi *et al.* (1988) and, with respect to developing countries, Katz (1987), Lall (1990) and Katz and Kosakoff (2000).

of productive experience, all of which further accentuates the lag in technology and the weakening of institutions.

At the aggregate level, these processes give rise to changes in productivity—labor or total factor productivity— depending on whether dualism increases or decreases and on the performance of this variable at the microeconomic level. The fact that some economic agents are approaching the technological frontier thanks to the incentives generated by a competitive environment or to their own learning effort does *not* necessarily mean that aggregate productivity will show the same degree of progress. The process itself may cause productive resources to be under- or unemployed (thus increasing dualism), and this has a negative effect on aggregate productivity. From a broader perspective, this means that the evolution of productivity follows a Verdoorn-Kaldor rather than a neo-classical dynamics.

Innovations may be of either internal or external origin. Rapid growth during State-led industrialization indicates that protection was a good way to overcome the entry costs into new activities, although at the possible costs of generating long-run inefficiencies. In this regard, the transition to export growth was the best alternative to overcome these costs, indicating the strong growth effects of the strategy that Krugman (1990, ch. 12) characterized as "import protection as export promotion", which was an ingredient of rapid growth of the East Asian economies but also of some Latin American economies in the last phase of State-led industrialization (see below). More broadly, "reciprocal control mechanisms" were essential to avoid the rent seeking effects of protectionism (Amsden, 2001).

Over the last few decades, positive and negative external forces have generated the creation as well as the destruction of productive activities. The technology revolution associated with information science and communications, the resulting disintegration of production chains in the industrialized countries which has caused assembly activities to be exported to developing countries, and the growing demand for services in international tourism are among the positive factors. The weakness of many raw materials markets and the accompanying deterioration of world real commodity prices is one of the negative factors. The changes associated with the structural reform process, however, have played an equally or even more decisive role.

The impact of these processes has been varied. On the positive side, they have led to a number of "innovations" as companies strive to become more competitive; equipment and inputs have become cheaper as a result of tariff reductions; companies have an incentive to enter external markets; sources of raw materials have opened up, especially in the mining sector; and new market structures have been established in privatized sectors, often bringing windfall profits because of the low prices at which these assets were sold (i.e., with considerable implicit subsidies to buyers) and the inadequacy of regulatory mechanisms. At the same time, the economies were hit by many destructive forces. Some branches disappeared as they could not compete with imports, producers of internationally tradable goods and services suffered as internal funds (undistributed profits) became scarce owing to the reduction of protection mechanisms and to revaluation processes, and technological capabilities that had been built up during the previous stage were lost as laboratories (of privatized public enterprises) and technology development centres were dismantled. These situations were reinforced by the macroeconomic instability that has prevailed over the last twenty years.

The formation of internationally integrated production systems gave rise to significant changes in complementarities, as so-called "value chains" disintegrated, and productive processes that had previously been carried out in one location are now carried out in many different places. As information and communications systems have improved, some factors, such as location near suppliers of inputs, became less important, but others, especially access to financial, infrastructure and other services, became more important. In any case, the fact that the trend towards specialization has increased rather than decreased is an indication of the fact that complementarities and the related phenomena of spatial agglomeration of certain activities still play an important role.

To all the above was added the weakening of many public and private institutions which had been established to support productive development during the previous stage and which had already experienced deterioration during the "lost decade". With the rejection of public intervention in production, very little effort was made to establish new institutions to replace them. Nevertheless, networks were created to promote exports and establish free trade zones, tourism was actively promoted, regulatory mechanisms in the mining sector were improved, and some governments encouraged the development of production clusters, especially at the local level. These developments serve as foundations upon which countries can build for the future.

All these processes have had a context-specific effect, as evidenced by the wide variety of economic growth experiences the countries have had. In general, as we saw in Section III, the incentives for improving microeconomic efficiency that went along with liberalization and privatization did not produce the anticipated rise in economic growth rates but increased, instead, dualism. While it is true that the region now has more "world-class" firms, including a greater presence of multinational corporations, it also has higher rates of open unemployment and underemployment and has lost much of the entrepreneurial and institutional capacity to transfer and adapt technology that it had built up during the previous development stage. Thus, destructive shocks had significant effects. The assumption that resources would be fully employed was not confirmed in practice, and many labor, entrepreneurial, technological, and institutional resources were underutilized, were unemployed or were actually destroyed.

Thus, the tendency to underestimate the role of policies aimed at supporting production was not "neutral" from the standpoint of productive development, economic growth, and social linkages. This view is also reflected in the abundant literature holding that there is no strict relationship between "incentive neutrality" and the rate of technological change.⁹ Thus, it is essential that productive development strategies and policies be resumed in order to ensure progress towards a dynamic economy. As regards structural change, the fundamental objective is to facilitate and instill momentum into productive activities by encouraging innovation, developing the complementarities needed for them to mature, including institutional support; as a counterpart, activities that tend to be displaced need to be restructured in an orderly fashion, so as to facilitate the transfer of resources to new sectors.

⁹ See, for example, the studies mentioned in Helleiner (1992), Roberts and Tybout (1996), and Rodríguez and Rodrik (2001).

The macroeconomic environment also played a key role in determining the relative importance of creative and destructive processes in the production sector. The elimination of hyperinflation was certainly a positive factor, as was the improvement of fiscal balances. However, other aspects of macroeconomic management have tended to accentuate the destructive effects and weaken some of the creative ones. The strong pro-cyclical behavior of aggregate demand, of external capital flows and of macroeconomic prices —such as exchange rates and interest rates—, generated tensions that jeopardized the survival of many firms, especially small and medium-sized ones. Producers of internationally tradable goods and services were particularly threatened, as they lost their effective protection (ECLAC, 1998). The sudden elimination of subsidies, as a result of fiscal and credit reform, and the drastic trade reforms that were implemented also caused some activities to be closed down, whereas, if changes had been carried out more gradually, they would have had a better chance of reconverting. Instead, there was overdestruction. The weakness of the long-term segments of the capital market and the exchange rate revaluations that occurred in many countries between 1991 and 1994 and during the 1996-1997 biennium also weakened the positive trends.

Throughout the last century, the rapid growth experienced by the developing world occurred in a context of *strategies of structural change* which, along with *macroeconomic and financial environments* that were conducive to development, led to dynamic capital accumulation processes (Rodrik, 1999).¹⁰ This is clearly illustrated by the rapid rise of the Asian economies. The vigorous growth that took place in Latin America during the period of State-led industrialization was also the product of a structural change strategy that was based, in some cases, on the deepening of import substitution and, in most cases, on "mixed" models combining import substitution with export promotion (Cárdenas, Ocampo and Thorp, 2000, ch. 1). Unlike the Asian countries, in the Latin American and Caribbean region, there was not always an adequate degree of macroeconomic stability for these processes, particularly after the avalanche of external resources that came in during the 1970s. This points to the need for active policies that provide for ongoing adjustments to the changing economic realities.

During the current development stage, therefore, structural change strategies must be implemented that will serve as a framework for dynamic growth to take place in the productive sector. Once strategies and policies are adopted, they should, of course, be consistent with the new external and domestic scenario. In this regard, five basic considerations are in order. In the first place, the main emphasis should be on integrating the region's economies into the world economy. This means developing regional and subregional production chains and clusters within the framework of integration processes, and generating activities complementary to export activities, with a view to enhancing the aggregate value of goods and services exports and their capacity to create momentum for other productive activities. In the second place, there must be a proper balance between individual initiative, which is decisive for getting a dynamic process of innovation started, and the establishment of coordination systems and public incentives. Incentives should, of course, be in line with international rules, especially those of the World Trade Organization. Nevertheless, although priority should be given to taking advantage of the maneuvering room provided under existing agreements, more opportunities should be available to the authorities of developing countries, who were too narrowly restricted after the Uruguay Round. In particular, they should be allowed to apply selective policies and performance criteria

¹⁰ This author refers to them as "capital accumulation strategies".

to encourage innovation and create the complementarities that are essential to development. In the third place, all incentives should be granted on the basis of performance, in order to generate "reciprocal control mechanisms", to borrow a term from a recent study (Amsden, 2001). In the fourth place, public policy should not necessarily be equated with State policy. On the contrary, a broad mix of public and private institutions should be considered, with each country developing the combination that best suits its own particular needs. Finally, these policies should be applied in a macroeconomic context that is conducive to the restructuring of existing capacity and that encourages productive investment.

References

- Amsden, Alice (2001), *The Rise of the Rest: Non-Western Economies' Ascent in World Markets*, Oxford, Oxford University Press.
- Cárdenas, Enrique, José Antonio Ocampo and Rosemary Thorp (eds.) (2000), *Industrialisation and the State in Latin America: the Post War Years, An Economic History of Twentieth Century Latin America*, Volume Three, Palgrave Press and St. Martins.
- Cimoli, Mario and Nelson Correa (2003), "Trade Openness and Technological Gaps in Latin America: A 'Low Growth Trap'", ECLAC, *mimeo*.
- Correa, Rafael (2002), "Reformas estructurales y crecimiento en América Latina: un análisis de sensibilidad", *ECLAC Review*, No. 76, April.
- David, M. Beatriz (2000), *Desarrollo rural en América Latina y el Caribe: ¿la construcción de un nuevo modelo?*, Bogotá, ECLAC/Alfaomega.
- Dirven, Martine (1997), "El empleo agrícola en América Latina y el Caribe: pasado reciente y perspectivas", *Serie de desarrollo productivo*, No. 43, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).
- Dosi, Giovanni, Christopher Freeman, Richard Nelson, Gerald Silverberg, and Luc Soete (eds.) (1988), *Technical Change and Economic Theory*, Maastricht Economic Research Institute on Innovation and Technology (MERIT)/The International Federation of Institutes for Advanced Studies (IFIAS), London and New York, Pinter Publishers.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2003a) *A Decade of Light and Shadow: Latin America and the Caribbean in the 90s*, forthcoming.
- _____ (2003b), *Latin America and the Caribbean in the World Economy, 2001-2002 Edition*, January.
- _____ (2002a) *Globalization and Development*, Santiago, April.
- _____ (2002b), *Growth with Stability: Financing for Development in the New International Context*, ECLAC Books, No. 67, Santiago.
- _____ (2002c), *Latin America and the Caribbean in the World Economy. 2000-2001 Edition*, Santiago.
- _____ (1998), *América Latina y el Caribe: políticas para mejorar la inserción en la economía mundial*, Second edition, Santiago and Mexico City, Fondo de Cultura Económica, April.
- Edwards, Sebastián (1995), *Crisis and Reform in Latin America: From Despair to Hope*, The World Bank, Washington, D.C., Oxford University Press.

- Escaith, Hubert y Samuel Morley (2001), “*El efecto de las reformas estructurales en el crecimiento económico de la América Latina y el Caribe. Una estimación empírica*”, Mexico, *El Trimestre Económico*, Vol. LXVIII (4), No. 272, October-December.
- Ffrench-Davis, R. (2003), “Financial Crises and National Policy Issues: An Overview”, in R. Ffrench-Davis and S. Griffith-Jones (eds.), *From Capital Surges to Drought: Seeking Stability for Emerging Markets*, WIDER/CEPAL, Palgrave/Macmillan, London.
- _____ (2000), *Reforming the Reforms in Latin America: Macroeconomics, Trade, Finance*, Macmillan, London and St Martin's Press, New York.
- Helleiner, Gerald K. (ed.) (1992), *Trade Policy Industrialization and Development: New Perspectives*, New York, Oxford University Press.
- Hirschman, A. O. (1958), *The Strategy of Economic Development*, New Haven, CT, Yale University Press.
- Hofman, André (2001), “Long run economic development in Latin America in a comparative perspective: Proximate and ultimate causes”, *Serie macroeconomía del desarrollo*, No. 8, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December.
- IDB (Inter-American Development Bank) (1997), *Latin America After a Decade of Reforms, Economic and Social Progress in Latin America 1997*, Washington, D.C.
- Katz, Jorge (2001), *Structural Reforms, Productivity and Technological Change in Latin America*, ECLAC Books, No. 64, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).
- _____ (1987) “Domestic technology generation in LDCs: a review of research findings”, *Technology Generation in Latin American Manufacturing Industries*, Jorge Katz (ed.), London, Macmillan.
- _____ and Bernardo Kosacoff (2000), “Technological learning, institutional building, and the microeconomics of import substitution”, in Enrique Cárdenas, José Antonio Ocampo and Rosemary Thorp (eds.), (2000).
- Krugman, Paul (1990), *Rethinking International Trade*, Cambridge, Mass., The MIT Press.
- Kuczynski, Pedro-Pablo and John Williamson, eds. (2003), *After the Washington Consensus: Restarting Growth and Reform in Latin America*, Institute for International Economics, March.
- Lall, Sanjaya (1990), *Building Industrial Competitiveness in Developing Countries*, Paris, OECD Development Center.

- Loayza, Norman, Pablo Fajnzylber and César Calderón (2002), “Economic Growth in Latin America and the Caribbean: Stylized Facts, Explanations, and Forecasts”, Washington, D.C., World Bank, June.
- Lora, Eduardo and Ugo Panizza (2002), “Structural Reforms in Latin America Under Scrutiny”. Background paper prepared for the seminar *Reforming Reforms*, Inter-American Development Bank Annual Meetings, Fortaleza, Brazil, March 11.
- _____ and Felipe Barrera (1998), “El crecimiento económico en América Latina después de una década de reformas estructurales”, *Pensamiento Iberoamericano*, Madrid Volumen extraordinario.
- Moguillansky, Graciela and Ricardo Bielshowsky (2001), *Investment and Economic Reform in Latin America*, ECLAC Books series, No. 63, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).
- Mortimore, Michael and Wilson Peres (2001), “Corporate Competitiveness in Latin America and the Caribbean”, Santiago, *CEPAL Review* No. 74, August.
- Nelson, Richard R. (1996), *The Sources of Economic Growth*, Cambridge, Mass., Harvard University Press.
- _____ and Sidney G. Winter (1982), *An Evolutionary Theory of Economic Change*, Cambridge, Ma. and London, The Belknap Press of Harvard University Press.
- Ocampo, José Antonio (2002a), “Recasting the international financial agenda”, in J. Eatwell, and L. Taylor (eds), *International Capital Markets: Systems in Transition*, New York, Oxford University Press, forthcoming (April).
- _____ (2002b), “Developing Countries’ Anti-Cyclical Policies in a Globalized World”, in Amitava Dutt and Jaime Ros (eds.) *Development Economics and Structuralist Macroeconomics: Essays in Honour of Lance Taylor*, Aldershot, UK, Edward Elgar.
- _____ (2002c), “Structural Dynamics and Economic Development”, in Valpy FitzGerald (ed.), *Social Institutions and Economic Development: A Tribute to Kurt Martin*, Chapter 4, Institute of Social Studies, Dordrecht, Kluwer
- _____ (2000), “Agricultura y desarrollo rural en América Latina: tendencias, estrategias, hipótesis”, *El impacto de las reformas estructurales y las políticas macroeconómicas sobre el sector agropecuario de América Latina*, Bogotá, ECLAC/Alfaomega.
- _____ and María Angela Parra (2003), “Returning to an Eternal Debate: The Terms of Trade for Commodities in the Twentieth Century”, Santiago, ECLAC, *Serie Informes y estudios especiales* No. 5.

- Peres, Wilson (coord.) (1998), *Grandes empresas y grupos industriales latinoamericanos. Expansión y desafíos en la era de la apertura y la globalización*, Mexico City, Siglo Veintiuno Editores.
- _____ and Giovanni Stumpo (2000), “Small and Medium-Sized Manufacturing Enterprises in Latin America and the Caribbean Under the New Economic Model”, *World Development*, vol. 28, No. 9, September.
- Pérez, Carlota (2001) “Technological Change and Opportunities for Development as a Moving Target”, *CEPAL Review*, No 75, Santiago.
- Prebisch, Raúl (1951), *Theoretical and practical problems of economic growth*, (E/CN.12/221), Mexico City, Economic Commission for Latin America (ECLAC). United Nations publication.
- Roberts, Mark J. and James R. Tybout (eds.) (1996), *Industrial Evolution in Developing Countries. Micro Patterns of Turnover, Productivity, and Market Structure*, Oxford, Oxford University Press.
- Rodríguez, Francisco and Dani Rodrik (2001), “Trade policy and economic growth: a skeptic’s guide to the cross-national evidence”, *NBER Macroeconomics Annual 2000*, Vol. 15, Ben S. Bernanke y Kenneth Rogoff (eds.), Cambridge, MIT Press.
- Rodrik, Dani (1999), *Making Openness Work: The New Global Economy and the Developing Countries*, Washington, D.C., Overseas Development Council.
- Ros, J. (2000), *Development Theory and The Economics of Growth*, The University of Michigan Press.
- Rosenstein-Rodan, P. N. (1943), “Problems of industrialization of Eastern and South-Eastern Europe”, *The Economic Journal*, vol. 53.
- Schumpeter, Joseph (1962), *Capitalism, Socialism and Democracy*, third edition, New York, Harper Torchbooks.
- _____ (1961), *The Theory of Economic Development*, Oxford, Oxford University Press.
- Stallings, Barbara and Jürgen Weller (2001), “Employment in Latin America: cornerstone of social policy”, *CEPAL Review*, No. 75 Santiago, Chile, December.
- _____ and Wilson Peres (2000), *Growth, Employment and Equity: the Impact of the Economic Reforms in Latin America and the Caribbean*, Santiago, Chile, The Brookings Institution /Economic Commission for Latin America and the Caribbean (ECLAC).
- Stiglitz, Joseph A. (2002), *Whither Reform? Toward a New Agenda for Latin America, Second Prebisch Lecture*, Santiago de Chile, Comisión Económica para América Latina y el Caribe (CEPAL), agosto.

Taylor, L. (1991), *Income Distribution, Inflation and Growth*, Cambridge, The MIT Press.

UNCTAD (United Nations Conference on Trade and Development) (1999), *Trade and Development Report, 1999* (UNCTAD/TDR/1999), Geneva. United Nations publication, Sales No. E.99.II.D.1.

World Bank (2002), *From Natural Resources to the Knowledge Economy: Trade and Job Quality*, David De Ferranti, Guillermo E. Perry, Daniel Lederman, and William F. Maloney (eds.), Washington, D.C., World Bank Latin American and Caribbean Studies Viewpoints.

_____ (1997), *The Long March: A Reform Agenda for Latin America and the Caribbean in the Next Decade*, Shahid Javed Burki and Guillermo E. Perry (eds.), Washington, D.C., World Bank Latin American and Caribbean Studies Viewpoints.