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THE LATIN AMERICAN ECONOMY DURING THE FIRST DECADES OF THE 21ST CENTURY

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The Latin American economy during the first decades of the 21st century[1]

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Abstract:

This paper looks at Latin America's performance during the long economic cycle between 1998 and 2014 and its aftermath. The persistence of Latin America's economic vulnerability to external shocks is confirmed, as well as the difficulties in maintaining sustained growth rates associated with processes of structural change. Thus, the gap with the leading countries remains, and Latin America has not been able to emulate the successful experiences of other emerging countries. It is also confirmed that, despite the important achievements in terms of social development during the recent growth cycle, the high structural inequalities have not been broken. The expansive phase, driven by the supercycle of commodities prices, left Latin America once again facing a new phase of crisis and/or stagnation, in which previous achievements were under threat even prior to the COVID-19 crisis, with all its negative consequences.

Key words: Latin America; economic cycles; structural change; human development; poverty; inequality. *JEL codes: F43, L52, N16, I30.*

Resumen:

Este artículo analiza el desempeño de América Latina durante el ciclo económico largo que tuvo lugar entre 1998 y 2014 y su desarrollo posterior. Se confirma la vulnerabilidad de América Latina ante ciclos externos, así como su dificultad para sostener altas tasas de crecimiento asociadas a procesos de cambio estructural. Así, las brechas con los países desarrollados se mantienen y América Latina no ha logrado emular el desarrollo de otras economías emergentes. También se confirma que, a pesar de los importantes logros en términos de desarrollo social durante el ciclo reciente, las altas desigualdades estructurales no han sido revertidas. La fase expansiva, movida por el superciclo de los precios de las *commodities*, dejó una vez más a América Latina frente a una nueva crisis o estancamiento, amenazando los logros obtenidos, aún antes de que irrumpiera la crisis del COVID-19, con todas sus consecuencias negativas.

[1] This paper was originally published in Spanish by *El Trimestre Económico* under the title "La economía latinoamericana durante las primeras décadas del siglo XXI" (https://www.eltrimestreeconomico.com.mx/index.php/te/article/view/1425). We thank *El Trimestre Económico* for making this publication of an English version possible.

1. Introduction

The economic history of Latin America has been characterized by recurrent economic cycles, which alternate periods of rapid growth with deep crises, a situation that undoubtedly contributes to increasing political instability. Throughout this process, the region has seen the gap that separates it from developed countries increase, while some countries in other regions of the world have managed to narrow it significantly.

Postwar growth spread, based on state-led industrialization (SLI), with variations from country to country, until the debt crisis of the 1980s (in the Chilean case, until the early 1970s). The so-called lost decade represented the beginning—and in a few cases the continuation—of the process of strong reorientation of the economy to the logic of the market. Economic growth resumed in the 1990s, led by exports, although with very little spill-overs to the rest of the economy. This meant that the growth was only moderate, both compared to the SLI decades and relative to other emerging economies. The 1990s ended with regional repercussions of the crisis that had broken out in East Asia in mid-1997 and deepened with the Russian moratorium on its foreign debt in August 1998. The regional crisis was severe in several South American countries. The growth of the 1990s was accompanied by rising levels of inequality, and the crisis led to very significant increases in poverty.

The exit from the crisis was driven by what came to be called the "supercycle" of commodity prices. The rise in these prices lasted little more than a decade, until 2014, albeit with a brief interruption during the North Atlantic crisis of 2008–2009.[2] The commodity boom was accompanied by low interest rates on external finance and significant changes in the ideological orientation of various governments in the region. A cycle of growth took place, interrupted in 2009, and was accompanied by a significant reduction in inequality in almost all countries of the region. This was paradoxical, since Latin America has always stood out for its high levels of inequality and, secondly, because inequality increased in this period in many other countries of the world.

Like in many previous economic cycles, based on expanding demand and rising commodity prices, this boom, while powerful, culminated in a major slowdown and even deep crises in some countries. This led to five years of regional economic stagnation prior to the crisis generated by the COVID-19 pandemic, with a dramatic negative impact.

In this paper, we present a summary of the characteristics of this cycle in Latin America, with some international comparisons, and identify the diversity of situations in the region.

The paper is structured as follows. After this Introduction, in the next section we place the recent cycle in the context of the long-term development of Latin America. The third section presents the main characteristics of the economic dynamics and productive development in the different phases of this last cycle and its aftermath –up to the pandemic crisis. The fourth deals with the dynamics of foreign trade and capital flows. The fifth addresses issues of poverty, inequality and human development. The concluding section looks at lessons to be drawn from the period analyzed for the development of the region.

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[2] We use this term, rather than "international financial crisis", because it was centered in the United States and Western Europe.

2. The recent cycle in the long-term context

During the last 200 years, Latin America grew at around the average rate for the world economy. A predominant feature of international development has been the growing divergence in income levels between different regions. Thus, while Latin America widened its differences from less dynamic regions of Africa and Asia, it also saw an increase in the gap that separated it from developed countries. On the other hand, the Latin American dynamic in relation to other regions has been very different at different stages of regional development (Bértola and Ocampo, 2012).

Although the general trend is shared by various Latin American countries, important differences can be noted among them. Many different typologies can be tested to study the disparate performance of Latin America. In this section we will divide them into three groups: the countries of the Southern Cone (Argentina, Chile, and Uruguay), other large and medium-sized countries (Brazil, Colombia, Mexico, Peru, and Venezuela), and the 11 small countries.

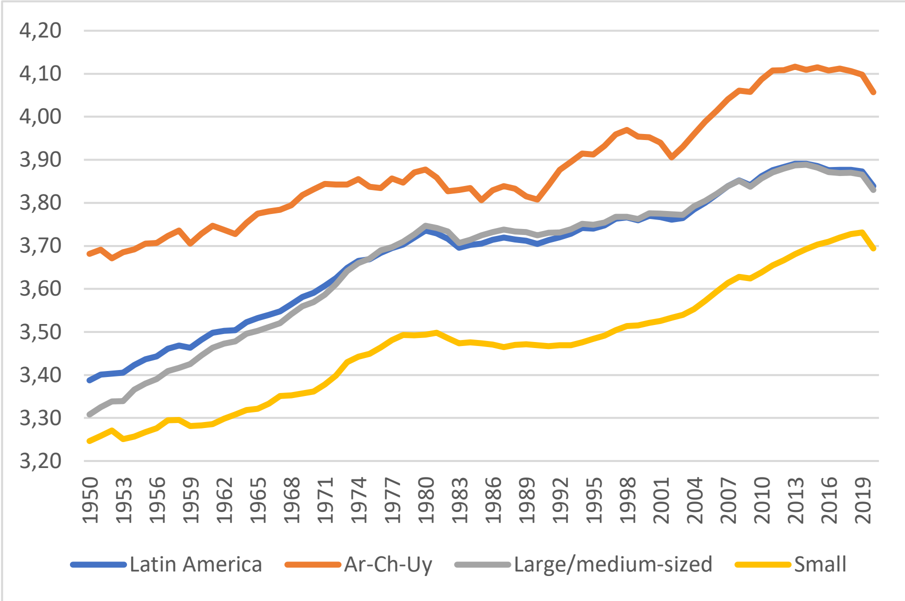
As Figure 1 shows, the differences between these groups relate to levels and trends. From the first point of view, Southern Cone countries have always shown a higher income per capita, while the smaller ones have always registered the lowest. The large and medium-sized countries have generally been close to the average. Obviously, due to their size, these have had a strong impact on the average figures, but the differences with the other two groups are nevertheless quite marked.

From the point of view of trends, we can see that between 1950 and 1970, those in the Southern Cone and the smaller countries maintained a similar upward rhythm, while the large and medium-sized ones showed the best performance. In the 1970s, the first of these groups showed an early exhaustion of their growth models, which only added to the political instability and the emergence of military post-democratic dictatorships, which arose as a reaction to the advances of various political forces that proposed furthering social reforms or radically changing the development model. In contrast, the rest of the countries, especially the other large and medium-sized economies, continued to grow until the debt crisis.

The period of pro-market reforms began in the 1970s in the Southern Cone, advanced more noticeably in most of the region from the mid-1980s, and dominated the scene in the 1990s. This period led to a certain stabilization of prices and macroeconomic discipline, as well as a notable increase in trade openness. However, while exports showed significant dynamism, they did not generate many spillovers on the domestic market, which deepened in terms of productive heterogeneity. At the same time, there was a steep increase in inequality due to the growing income of the export sectors, accompanied by a strong process of deindustrialization and the withdrawal of the State in very diverse fields of productive and social policy.

The aggregate result, as can be seen in Figure 1, was not only the lost decade, but a second decade, that of 1990, of low economic dynamism. The countries of the Southern Cone had a spring of strong growth, stimulated by regional integration processes and the strong inflow of capital associated with the privatization of state-owned enterprises. However, that spring led to yet another of the deep recurring crises (less serious in the case of Chile). The other large and medium-sized economies never resumed the rates of economic growth they had enjoyed until the 1970s, and several also faced the crisis that broke out in 1998 (in Mexico it was earlier, in 1994). In the midst of the crisis, the poverty levels in several countries in the first two groups increased significantly. Small economies fared better, in particular because they generally managed to avoid this crisis.

Figure 1. GDP per capita for Latin America and for three groups of its countries, 1950-2020 (logarithms, Gheary-Khamis dollars of 1990)



Large and medium-sized countries: Brazil, Colombia, Mexico, Peru and Venezuela.
Small countries: Bolivia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay.
Prepared based on Bértola and Ocampo (2013) and ECLAC.

3. The 1998–2014 cycle and its outcome

a. Productive performance and its structure

The economic cycle that we want to study spans from the peak of 1998 to that of 2014. It includes a crisis phase until 2002 and a recovery and expansion until 2014, with a slowdown in 2009 generated by the North Atlantic crisis. Later we will look at the impact of the 2015–2019 stagnation and finally the impact of the COVID-19 crisis. This way of subdividing the period is clearly somewhat arbitrary, based on the regional total; as can be seen in Table 1, it does not apply strictly to each country.

Table 1. Per capita GDP growth rate in Latin America during the cycle and the various phases

Country	1998-2014	1998-2002	2002-2014	2014-2019	2019-2020
Argentina	1,7	-5,9	4,4	-1,2	-10,7
Bolivia	2,0	-0,6	2,8	2,4	-9,3
Brazil	1,9	0,6	2,3	-1,3	-4,7
Chile	2,5	1,1	3,0	0,6	-6,6
Colombia	2,5	-0,8	3,6	1,0	-7,8
Costa Rica	2,5	1,2	2,9	2,3	-4,9
Cuba	4,4	3,9	4,6	1,7	-8,2
Dominican Republi	3,7	3,2	3,8	4,9	-7,7
Ecuador	2,5	0,1	3,3	-1,2	-9,2
El Salvador	1,7	1,9	1,7	1,9	-8,4
Guatemala	1,1	1,0	1,1	1,4	-3,4
Honduras	1,6	0,4	2,0	2,1	-10,4
Mexico	1,3	1,5	1,3	0,8	-9,3
Nicaragua	2,5	2,1	2,6	0,0	-3,1
Panama	4,5	0,4	5,9	2,8	-19,2
Paraguay	1,4	-2,7	2,9	1,6	-1,8
Peru	3,9	0,9	4,9	1,6	-12,4
Uruguay	2,9	-5,0	5,7	0,5	-6,2
Venezuela	0,5	-3,9	2,0	-16,7	-29,8
Latin America	1,8	-0,3	2,5	-0,8	-7,7
Ar-Ch-Uy	2,0	-3,6	4,0	-0,5	-9,0
Large/medium-size	1,8	0,4	2,2	-1,1	-7,9
Small	2,6	1,1	3,1	1,8	-8,1
1998-2014	Below average (<1.8%)	Between average and twice the		> twice the average (3.6%)	
1998-2002	Fall	Slow or moderate (0 to 2%		Rapid >2%	
2002-2014	Below average	Moderate (2.5-4.0)		Rapid >4%	
2014-2019	Fall	Slow or moderate (0 to 2%)		Rapid >2%	
2019-2020	Steep (>10%)	Significant: between 5 and 10%		Moderate <5%	

Source: Prepared by the authors based on information from ECLAC

It is not possible to find a correlation between the level of GDP per capita and performance in the 1998–2014 cycle. Performance has varied enormously from country to country, which we have tried to highlight with the use of different shades of white and gray.

The Dominican Republic, Peru, Panama, and Cuba are characterized by their high performance, even though their starting points are different. At the other extreme, Venezuela stands out from the rest, but there are six additional countries with low growth rates throughout the cycle. Another eight countries are in an intermediate situation.

This performance throughout the cycle should not hide the fact that, while some countries were relatively stable, others suffered very severely from the crisis at the end of the century and then experienced a very strong recovery.

We can see how Argentina, Paraguay, Uruguay, and Venezuela suffered this crisis dramatically, and to a lesser extent Bolivia and Colombia. At the other extreme, Cuba and the Dominican Republic did not experience such a crisis.

Uruguay and Argentina were the countries that reversed the decline most markedly, although only Uruguay recorded good dynamism in the cycle as a whole. Colombia, Bolivia and Ecuador also experienced a significant recovery. But what stands out is the acceleration of growth in Panama and Peru, which resulted in strong dynamism in these two economies throughout the cycle.

The 2014–2019 period also shows important differences. Bolivia, Costa Rica, Honduras, Panama, and especially the Dominican Republic maintained a good growth rate, but Argentina, Brazil, Ecuador, and especially Venezuela experienced a fall in GDP per capita. Many other countries grew at very low rates, close to stagnation, such as Chile, Colombia, Mexico, Nicaragua and Uruguay.

Finally, the COVID-19 crisis also affected countries differently, although there was a drop in all of them. Five countries showed falls of more than 10%, with Venezuela standing out from the rest. Another five showed falls of less than 5%; the least affected seems to have been Paraguay. A complex legacy in almost all the countries of the region (and, in fact, of the world), which we will not analyze here, is the high level of public debt left by this crisis, the management of which will be a major national and international challenge in the coming years.

In general terms, Argentina and Venezuela have fared worse for all measurements, while the Dominican Republic, Cuba, Costa Rica, Honduras, and Nicaragua performed best throughout the period. Obviously, we are not talking about income levels, but about growth rates.

The 1998–2014 cycle did not show any significant results in terms of structural change. To facilitate exposition, we have organized them according to rate of economic growth in the 1998–2014 cycle, following the classification given in the first column of Table 1. The results are presented in Table 2.

Table 2. Structure of Latin American GDP by economic activity (selected years between 1990 and 2019)

Table 2. GDP structure by economic activity (selected years between 1990 and 2019)								
	1990/91	1998/99	2014/15	2018/2019			Changes	
Rapid growth 1998-2014						1990-1998	1998-2014	2014-2019
Agriculture, livestock farming, hunting, forestry &	0,10	0,07	0,05	0,04		-0,03	-0,02	0,00
Mining and quarrying	0,03	0,02	0,03	0,03		0,00	0,01	0,00
Manufacturing industries	0,17	0,16	0,12	0,11		-0,01	-0,03	-0,01
Construction	0,05	0,07	0,10	0,12		0,02	0,03	0,02
Trade & hospitality	0,19	0,20	0,20	0,20		0,00	0,00	0,00
Transportation, storage & communications	0,10	0,09	0,10	0,09		-0,01	0,01	0,00
Intermediation (a)	0,12	0,12	0,12	0,11		0,00	0,00	0,00
Public services (b)	0,21	0,20	0,22	0,22		-0,01	0,02	0,00
Gross domestic product (GDP)	1,00	1,00	1,00	1,00		0,00	0,00	0,00
Moderate growth 1998-2014								
Agriculture, livestock farming, hunting, forestry &	0,11	0,10	0,06	0,07		-0,01	-0,03	0,00
Mining and quarrying	0,05	0,03	0,07	0,06		-0,02	0,04	-0,01
Manufacturing industries	0,19	0,16	0,12	0,11		-0,03	-0,04	0,00
Construction	0,04	0,05	0,06	0,06		0,01	0,02	0,00
Trade & hospitality	0,14	0,12	0,12	0,12		-0,02	-0,01	0,00
Transportation, storage & communications	0,08	0,08	0,08	0,08		0,01	-0,01	0,00
Intermediation (a)	0,16	0,18	0,18	0,18		0,02	0,00	0,01
Public services (b)	0,15	0,19	0,20	0,21		0,03	0,01	0,01
Gross domestic product (GDP)	1,00	1,00	1,00	1,00				
Slow growth 1998-2014								
Agriculture, livestock farming, hunting, forestry &	0,13	0,09	0,08	0,07		-0,04	-0,01	-0,01
Mining and quarrying	0,02	0,02	0,02	0,02		-0,01	0,00	0,00
Manufacturing industries	0,18	0,18	0,16	0,16		0,00	-0,01	0,00
Construction	0,05	0,05	0,06	0,06		0,01	0,00	0,00
Trade & hospitality	0,18	0,16	0,17	0,17		-0,02	0,00	0,01
Transportation, storage & communications	0,06	0,07	0,07	0,07		0,00	0,00	0,00
Intermediation (a)	0,10	0,12	0,16	0,16		0,02	0,04	0,00
Public services (b)	0,16	0,18	0,17	0,17		0,02	-0,01	0,00
Gross domestic product (GDP)	1,00	1,00	1,00	1,00				
Total								
Agriculture, livestock farming, hunting, forestry &	0,06	0,05	0,05	0,05		-0,01	0,00	0,00
Mining and quarrying	0,04	0,03	0,04	0,04		-0,02	0,01	0,00
Manufacturing industries	0,17	0,15	0,12	0,13		-0,02	-0,02	0,00
Construction	0,05	0,06	0,06	0,06		0,01	0,00	0,00
Trade & hospitality	0,15	0,13	0,15	0,15		-0,02	0,01	0,01
Transportation, storage & communications	0,06	0,06	0,07	0,07		0,01	0,01	0,00
Intermediation (a)	0,19	0,19	0,17	0,17		0,00	-0,02	0,00
Public services (b)	0,16	0,18	0,19	0,19		0,02	0,01	0,00
Gross domestic product (GDP)	1,00	1,00	1,00	1,00				
a) Financial intermediation and real estate, business and rental activities								
b) Public administration, defense, compulsory social security, education, social & health services, and other community, social & personal servi								
The classification of countries by growth rate is that used in column 1 of Table 1.								
Changes of more than two percentage points are highlighted.								

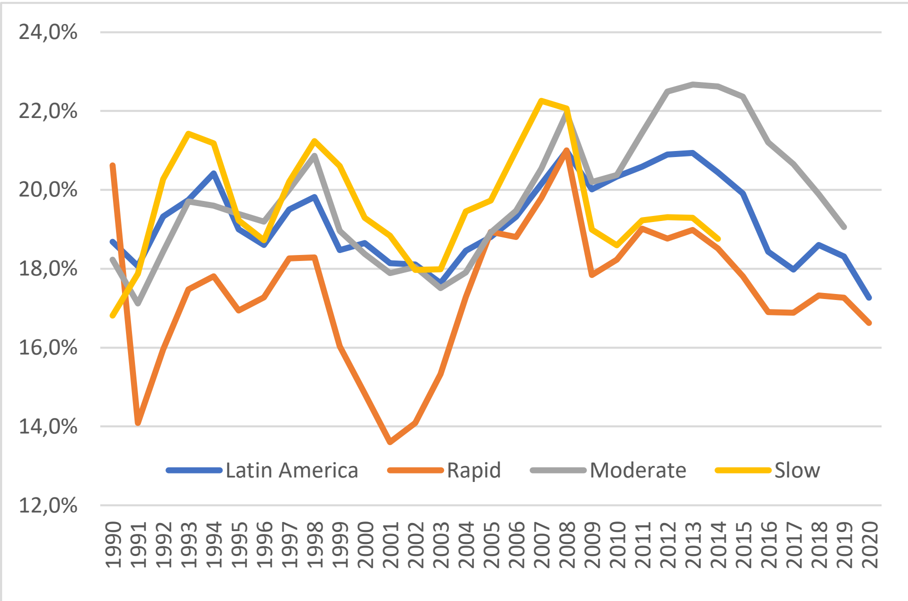
Source: Prepared by the authors based on information from ECLAC

If we look at Latin America as a whole, the strongest trends are the drop in manufacturing industry and the growth of the group that we have called “public services”. If we focus on the fastest growing countries, we see two changes, one more important than the other: i) the growth of the construction industry and, to a lesser extent, that of public services; ii) the drop in agriculture and manufacturing. In the medium-growth countries, the same sectors—agriculture and manufacturing—shrank, but the sectors showing considerable growth are mining and construction. Finally, in the countries that grew very little, the sector that increased its share significantly was that of financial services and intermediation activities.

From the point of view of investment, Figure 2 shows us very clearly the features of this long cycle, with a steep fall at the turn of the century and a sharp subsequent increase which was cut short by the North Atlantic crisis. The investment rate then recovered overall, led by moderate-growth countries, while fast-growing and very slow-growing countries did not return to the upward path. In any case, from 2014–2015 on, the fall is generalized.

It is important to highlight two characteristics of investment. In the first place, its strongly procyclical nature, reflecting its dependence on fluctuations in domestic demand and commodity prices. Investments were largely attracted by the profitability generated by the commodity boom. On the other hand, beyond the marked fluctuations observed, it is clear that the level of investment in the entire region is notoriously low and no sustained increase was achieved, despite the favorable international financing that characterized the period.

Figure 2. Simple average of the gross fixed capital formation rates as a % of GDP in current dollars: total for Latin America and for the various groups according to growth rate in 1998–2014

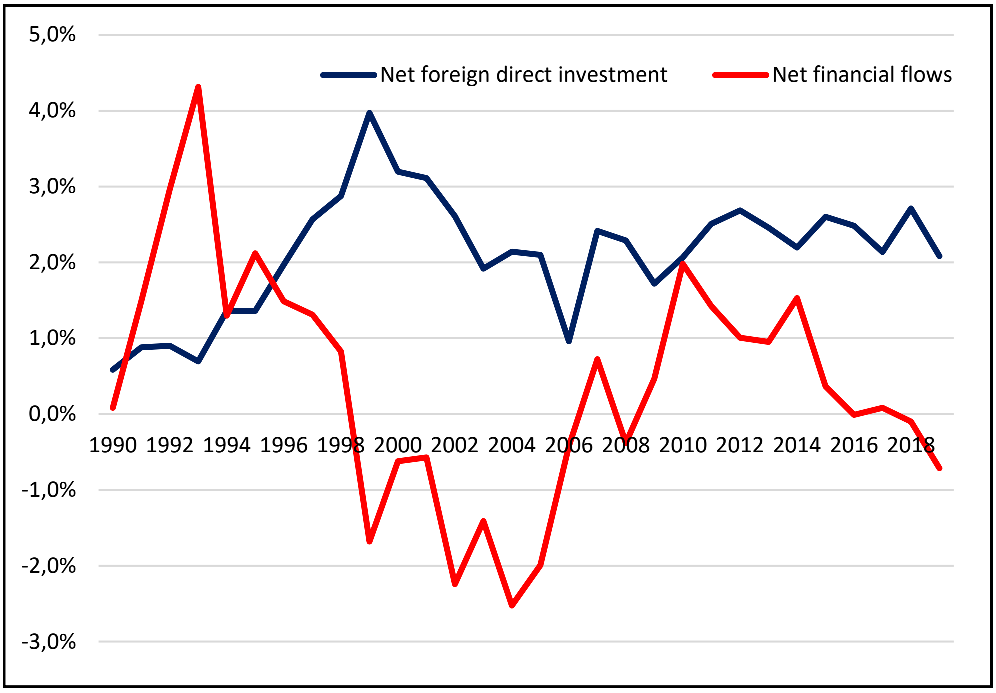


Source: Prepared based on information from ECLAC. Countries have been classified according to growth rates as per the first column of Table 1.

Net foreign direct investment, shown in Figure 3, declined as a share of GDP after peaking in 1999, and stabilized at levels below those reached in the second half of the 1990s, when it was strongly stimulated by privatization of state-owned enterprises. For their part, financial flows showed high volatility, following the historical pattern they had experienced since the 1970s. They fell sharply during the crisis at the end of the century and only became positive again in net terms in 2007, before falling again during the North Atlantic crisis. However, they rebounded and indeed boomed during the years of high commodity prices, in 2010–2014, reinforcing the positive effect on Latin American economies. They subsequently declined during the stagnation years, but only turned slightly negative in 2018–2019.

It is also interesting to note that the cost of finance through private markets rose dramatically during the crisis at the end of the century, but then fell to low levels in 2005–2007, which have been maintained since then, except for brief spikes during the North Atlantic and COVID-19 crises (Ocampo, 2020a, Figure 2). What this indicates is that external conditions during the last years of the growth period were extremely favorable: high commodity prices and abundant and low-cost external financing.

Figure 3. Net capital flows to Latin America as a percentage of GDP, 1990–2019



Source: Prepared based on information from ECLAC

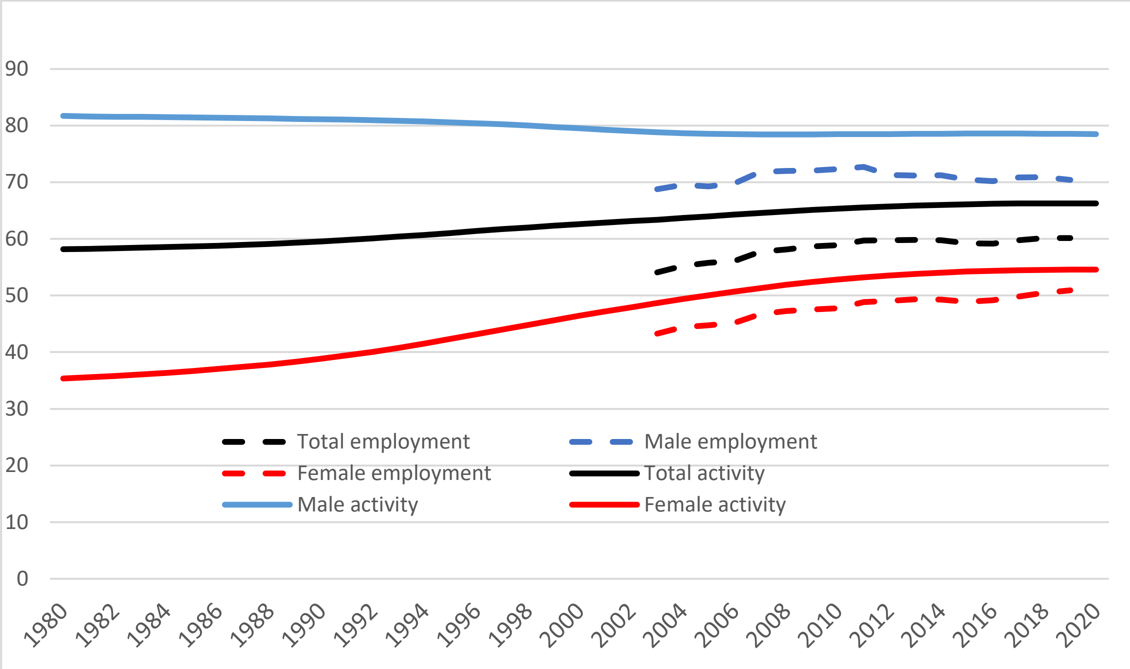
The labor force participation rate—i.e., the proportion of the working-age population that is active in the labor market, whether it is employed or looking for work—had been increasing in the last decades of the 20th century, and maintained its growth until the mid-2010s, when it stagnated (see Figure 4).

The increase in labor force participation rate was determined by the increase in that of women, which was very marked in the first decade of the 21st century and has remained fairly constant until the present. In contrast, the activity rate of men fell in the first decade and then stabilized.

Variations in the employment rate amplified these important changes in the labor market. This variable was more sensitive to movements in the economic cycle, and clearly shows the slowdown in growth around 2014–2015. There were a few years of decline and then a recovery. However, the impact was very different in men and women. In men, the change in the phase of the cycle was noticed earlier: the fall was stronger and the recovery almost non-existent. In women, on the contrary, the fall was smaller, the recovery was rapid and surpassed the 2014 levels.

In short, during this cycle and the succeding crisis, the labor market was characterized by a medium-term trend increase in labor participation, due to that of women, a trend that was accentuated by fluctuations in the employment rate, where women showed better performance than men.

Figure 4. Labor force participation and employment rates in Latin America, 1998–2020



Source: Prepared based on information from ECLAC

b. Industrial policies[3]

The crisis that market reforms experienced at the turn of the century led to a timid return to industrial policies—or, as some would prefer to call them, production sector development policies.

In many countries of the region, this period coincided with the rise to power of leftist or progressive governments. However, in these countries in particular, production and technology policies presented a certain paradox. While historically the left has preached that social changes require important productive changes, and that said changes should lead to transformations of social and power relations, progressive governments have tended to coincide with a commodity boom, which strengthened the power of traditional sectors and of new actors linked to the exploration and commercialization of natural resources. This weakened the discourse of structural change. On the other hand, when structural change could be verified, the contribution of policies to it was marginal.

Thus, rather than involving a transformation of the structures of production, the social programs and the fight against inequality—which advanced significantly over the period— remained dependent on the resources generated by traditional activities. The discourse in this regard was so strong that it was possible to advance in social transformation and in the defense of popular interests without the need to generate significant productive changes. This may have been associated with the expectation that the demand for commodities and prices would continue uninterrupted for an extended period of time.

In this context, there were some advances in productive development policies, including technological ones. However, these advances were generally very timid, and very few resources were allocated to them. Furthermore, productive development strategies continued to be

[3] This section is based on Bértola (2021) and Ocampo & Porcile (2020).

dominated by horizontal policies, guided by demand, which tended to reinforce the predominant power structures and existing capacities. Sectoral and systemic policies made their way slowly and gained more resources, without becoming very significant.

The change in policies towards more systemic approaches was delayed by the necessary rebuilding of state capacities after structural reforms, which dismantled many of these capacities. The slow process of rebuilding capacities allowed for progressive institutional accumulation reforms, which slowly bore fruit. However, these processes were not linear but subject to important political fluctuations. In Chile, for example, this process was interrupted by the Piñera government in 2010–2014 (OECD, 2018; Álvarez and Sutin, 2017). Even so, it can be verified that horizontal policies, and even more so, those based on tax exemptions, with little evaluation and follow-up, account for a very large portion of the budget dedicated to these policies. In Uruguay, for example, 83% of spending on productive development policies is of this nature (Bértola and Lara, 2017; Bértola, 2018).

The lack of capacities and the weakening of the conviction of the need for structural change meant that many initiatives aimed at promoting structural change, especially scientific-technological policies, received scant attention from public management and were lacking in strong leadership at the highest level. For this reason, many policies failed to acquire a systemic character. Furthermore, new initiatives were superimposed on old ones, generating what, in the Argentine and Brazilian cases, has been characterized as the coexistence of different geological layers of industrial policies.

Another aspect, highlighted by Santarcángelo, Schteingart and Porta (2019), is that macroeconomic policies were rarely coordinated with industrial policies, an argument repeatedly made by some authors over the last few decades (see, especially, Ffrench-Davis , 2015 and Ocampo, 2020b).

Finally, it should be noted that throughout this cycle with a certain predominance of progressive governments, there were major external shocks, which ended up having a decisive impact on policies and politics.

The crises generated negative impacts on the expansionary cycle. In this context, industrial policies, both in Argentina and in Brazil, began to have a strong countercyclical component. The Greater Brazil Plan is a clear example (Laplane and Laplane, 2018; Cimoli et al., 2017), but even clearer was the situation in Argentina, where trade balancing policies became very important, a reminder of the protectionist policies from decades ago (Lavarello and Mancini, 2017; Lavarello and Saravia, 2015). The final blow was dealt by the end of the supercycle of commodity prices. This radical change in the situation starting in 2014 shook the foundations of the economic, social and political agreements on which the growth with redistribution model was built, since there were no resources left for social policies and to corrupt political wills. The elites, intact in their economic and social power, became politically strong, and began dismantling some social policies and returning to horizontal policy models for productive development, which tend to strengthen the economic power of the traditional elites and new partners linked to direct foreign investment.

The amount of investment in research and development (R&D) in Latin America as a share of its GDP speaks for itself. According to information from the Network of Science and Technology Indicators (RICYT), the average for Latin America in 2010–2015 was 0.39%, while that of Canada, Spain and Portugal was 1.47%, that of United States 2.72% and South Korea 3.98%.

According to a recent UNCTAD report on innovation and technology, the scientific-technological readiness index, based on the use of ICTs, skills, investment in R&D, productive activity/industry and access to finance for these activities, shows Latin America to be below the world average, surpassing only the countries of North Africa and sub-Saharan Africa (UNCTAD 2021, Figure 6, p. XVII).

4. External sector

a. Dynamics of foreign trade: exports, imports, purchasing power, terms of trade

It is not easy to find a clearly defined pattern of foreign trade performance. The supercycle of commodity prices was a dominant feature of this period. However, this supercycle did not affect all countries in the same way. Although the terms of trade improved for the aggregate, the difference between South America, on the one hand, and Central America and Mexico, on the other, was noticeable. As can be seen in Table 3, between 1997–1999 and 2013–2015, South America's terms of trade increased by nearly 50%, while those of Central America and Mexico fell by almost 10%. There are two South American countries that do not respond to the trend: Brazil and Uruguay, the latter due to its heavy dependence on oil imports. On the other hand, the volume of exports grew much faster in Central America and Mexico, which indicates that there is no clear correlation between export volumes and prices. As a result of both variables, South American countries experienced a greater improvement in the purchasing power of exports, but in both cases it was substantial (160% for the South American countries and 121% for those of Central and North America). In Table 3 we also show the changes in these variables for the three groups of countries that we initially presented and according to growth rates. This last subdivision is important, because it shows that the countries that grew the fastest did so based on the expansion of export volumes, but with a less substantial improvement in the terms of trade. Low-growth countries are those that showed the worst export performance.

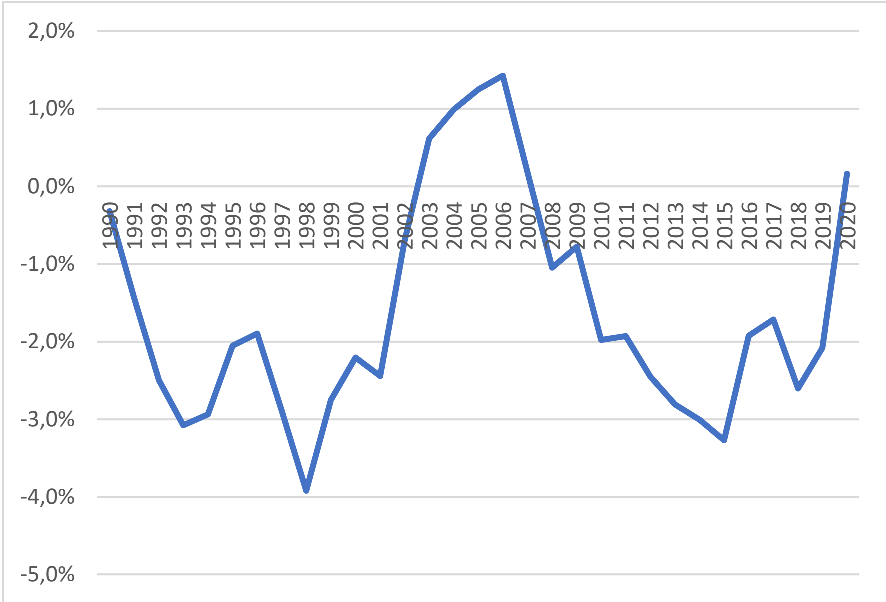
Table 3. Changes in the indices of the terms of trade, volume of exports and purchasing power of exports between 1997-99 and 2013-15 (%) in different groups of Latin American countries

	Terms of trade	Volume of exports	Export purchasing power
South	48	76	160
Central & North	-7	137	121
Southern countries outside the trend			
Brazil	10	138	161
Uruguay	0	130	130
Ar-Ch-Uy	32	86	146
Large/medium-sized	60	62	159
Small	-1	124	121
Rapid growth countries	11	150	178
Moderate growth countries	28	128	191
Slow growth countries	22	35	64
Latin America	28	130	167

Source: Prepared by the authors based on information from ECLAC

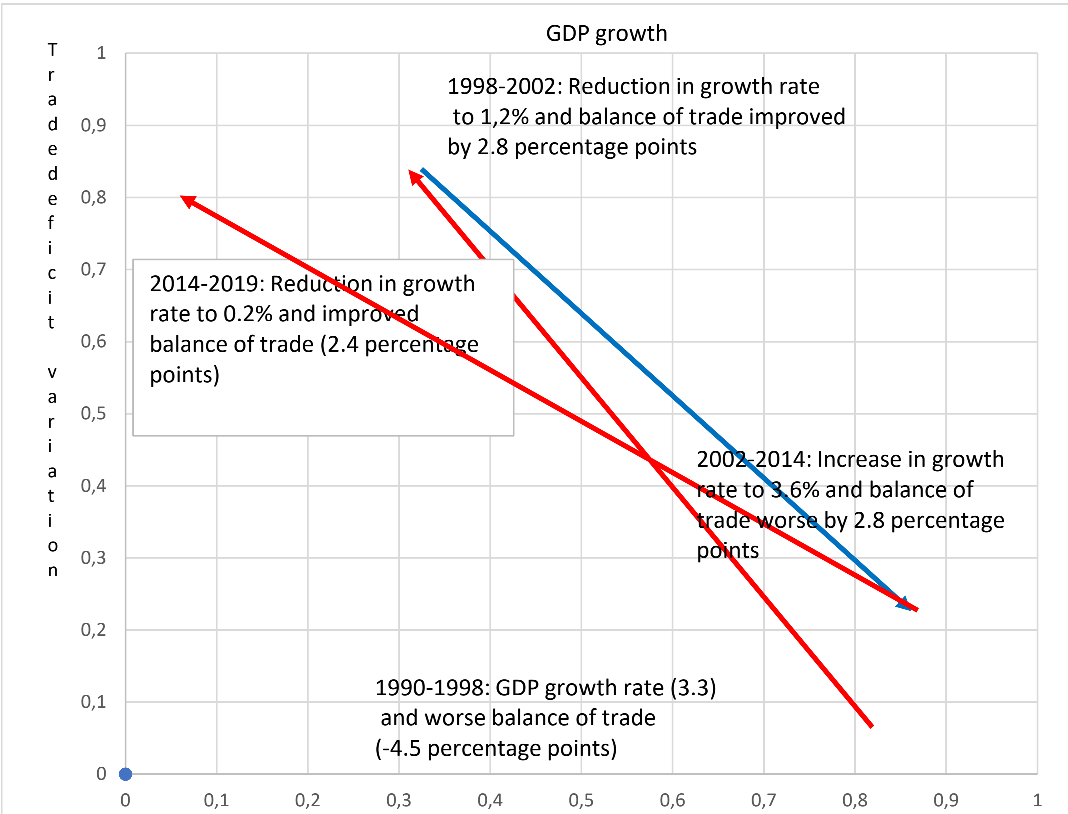
Figures 5 and 6 summarize an often-studied feature of the dynamics of Latin American development. The limitations of structural change in the region and its difficulty in penetrating the most dynamic markets mean that periods of rapid growth produce an abundance of reserves and even an appreciation of the exchange rate, which can affect the competitiveness of broad productive sectors. This, together with the high income elasticity of the demand for imports, in turn leads to the deterioration of the balance of trade. The history of Latin America, as has been seen, is marked by these expansionary periods that end in deep crises in which large devaluations and recessions take place and external balances are restored. Figure 5 shows in an extremely eloquent way the cycle of the current account balance in Latin America as the opposite of the GDP growth cycle. Graph 6 shows the succession of periods of growth with a deterioration in the balance of trade and periods of adjustments to restore balance and a slowdown in economic growth. History keeps repeating itself.

Figure 5. Latin American current account balance, 1980–2019 (current dollars)



Source: Prepared based on information from ECLAC.

Figure 6. GDP growth and trade balance changes in Latin America, 1990–2019



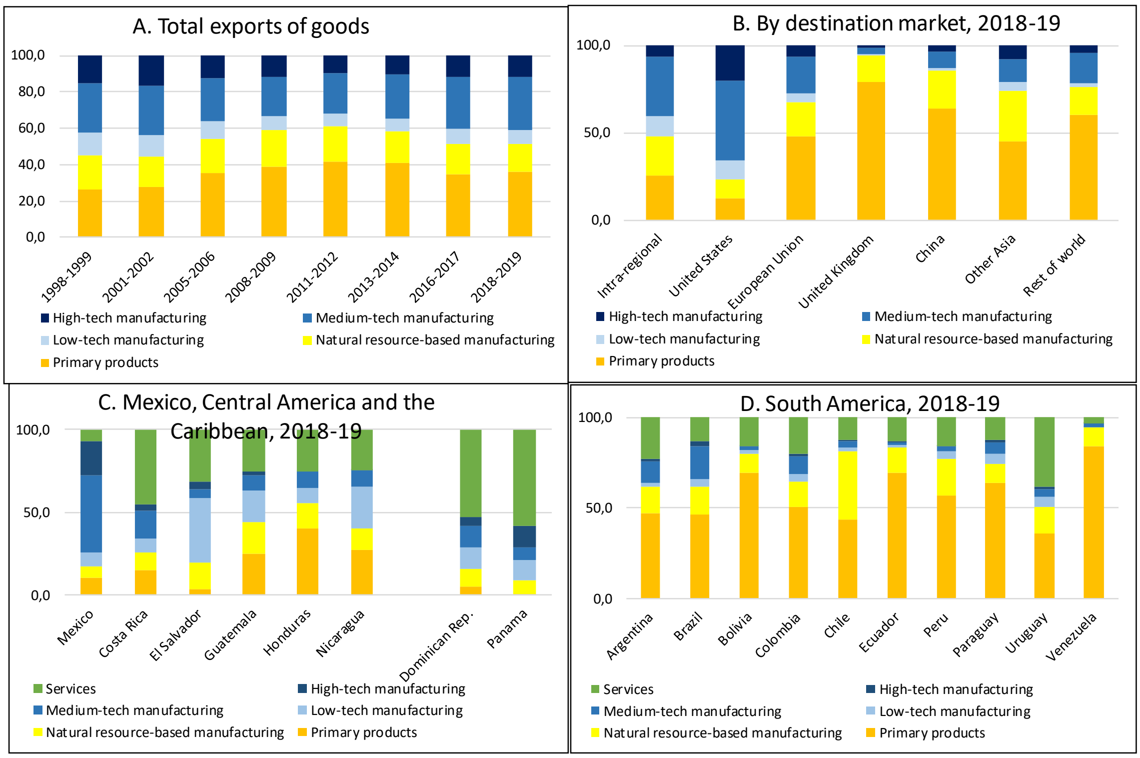
Source: Prepared based on information from ECLAC

b. Structure of exports and changes in trading partners

In terms of export dynamics, two trends stand out: a relative brake on the export diversification that had taken place in the last three decades of the 20th century, and an important change in trading partners. As we will see, in regard to the latter issue, the two major patterns have been the outstanding rise of China as a trading partner and the unfortunate slow growth and instability of intra-regional trade. Another important element is the growing export of services, although at a lower rate than that of goods, with a persistent deficit of services in the balance of payments. Most notable among services exports are tourism and transportation services, although there are also some with a degree of technological content (Uruguay is an interesting case in this regard), and financial services in Panama.

Figure 7.A shows that the composition of exports according to the well-known Sanjaya Lall classification showed a certain reversion towards commodities and manufactured goods based on natural resources, which for Latin America went from representing 45% of foreign sales of goods in 1998–99 to 52% in 2018–19. Commodity exports dominated this trend, which was obviously related to the commodity price supercycle, and thus peaked at the end of that boom, between 2011 and 2014.

Figure 7. Exports from Latin America by technological content



Source: Information provided to the authors by ECLAC.

The counterpart was, of course, the decrease in the proportion of manufactured goods. Among these, however, the most dynamic were those with intermediate technology, while the shares of low and high technology declined. In several of these cases, it is important to take into account that those exports are in many cases assembly activities within international value chains, in which Mexico plays a key role, but so do other countries (Costa Rica in high-tech ones, for example). Given the nature of assembly, in many cases the task carried out in Latin American countries is simple, even if the final product is classified as high-tech.

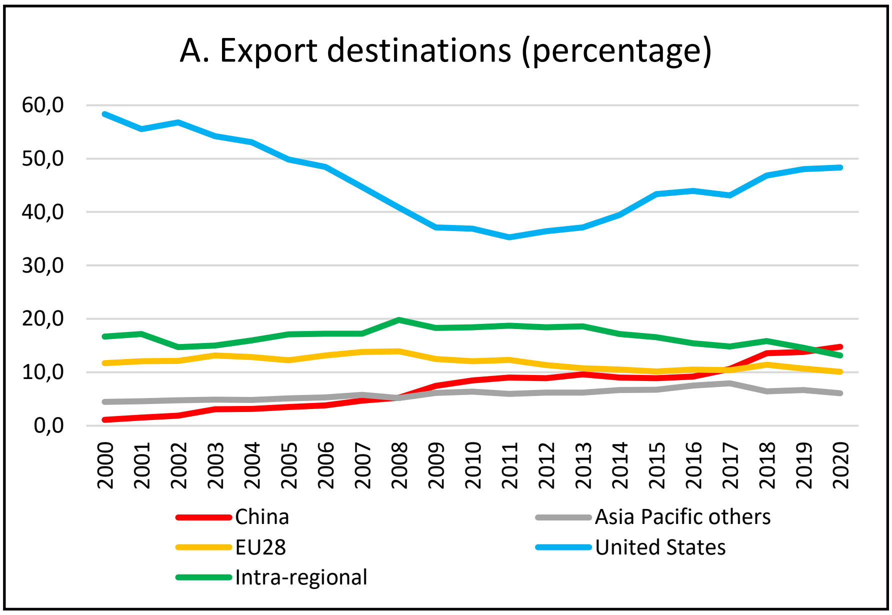
The rise of products based on natural resources and the relative decline in manufacturing exports are part of the changes experienced by the production structure in general, as we have pointed out in a previous section.

The composition of the various products in the export baskets differs significantly in terms of both destination market and exporting country. Figure 7.B shows that in 2018–2019, manufacturing exports have a relatively greater importance in sales to the United States and in inter-regional trade; again, part of registered high-tech exports to the United States may be assembly tasks. On the opposite side are China and the United Kingdom. The high proportion of products based on natural resources exported to China (85% in those years) is significant, given the growing role of the Asian giant in trade with the region. The other destinations, especially the European Union and the rest of Asia (where Japan and the Republic of Korea stand out), are in an intermediate situation, but they too have a greater proportion of natural-resource-intensive exports.

The importance of different products in the export basket, shown in figures 7.C and 7.D, including services, is highly variable. The most outstanding element is the greater proportion of exports based on natural resources in the external sales of South American countries than in those of Mexico, Central America and the Dominican Republic. In the second group, the high proportion of manufacturing exports from Mexico stands out, and from some small economies too (El Salvador, in particular), as well as the importance of service exports, which represent a very high share in Panama, the Dominican Republic and Costa Rica. In South America, the proportion of natural resources is staggering in Venezuela, Bolivia, Ecuador, and Chile, although in the latter case with a greater share of manufactured goods based on these products. Brazil and Argentina have a higher proportion of exports of manufactured goods and Uruguay of services. The other countries occupy an intermediate position, with Colombia having a slightly more diversified structure than Peru or Paraguay.

Changes in the importance of trading partners have been significant (Figure 8). The most outstanding is the rise of China as a trading partner, more in terms of imports than of exports, generating therefore an increasingly negative trade balance for Latin America. In any case, China has become the dominant destination for exports from several countries in the region, especially South American ones, for which the Asian giant has been in many cases the main or second destination for exports during the last decade. The high proportion of sales of natural-resource-intensive goods in trade with the Asian giant has undoubtedly had an impact on the trends in the composition of various goods in Latin American exports, to which we have alluded earlier.

Figure 8. Main trading partners of Latin America



Source: Prepared based on information from ECLAC

The counterpart to the rise of China as a trading partner is the decrease in the proportion of exports to the United States and also to the European Union. In the case of the United States, its importance as an export destination tended to recover at the end of our period of analysis, due to the lower relative importance of commodities in sales to that country, once the supercycle of commodity prices ended.

A very problematic feature has been the lack of dynamism in intra-regional trade, after the strong growth that it had experienced in the last decade of the 20th century thanks to the reconstruction of the Andean Community and the Central American Common Market, and the birth of MERCOSUR. This trade had a slight relative growth during the first phase of the boom, which was soon interrupted. Given the importance of Colombia-Venezuela trade, Venezuela's exit from the Andean Community in 2006 and the growing political tensions between the two countries are among the important factors in the scant dynamics of intra-regional trade. So is the lack of full consolidation of MERCOSUR and the recurring economic and political tensions between its two major partners, Argentina and Brazil. Apart from that, the fact that intra-regional trade has represented less than a fifth of the region's total is a convincing sign of the weakness of the Latin American integration processes.

The evolution of trade continued to be characterized by the negotiation of free trade agreements, following the trend that had begun with the signing of the North American Free Trade Agreement (NAFTA) in 1992 and other initiatives by Mexico and Chile, which spread to the European Union and other countries of the world. Other Latin American nations joined this trend, especially Colombia and Peru, but also Central America and the Dominican Republic, which reached a joint agreement with the United States in 2006. The most reluctant have been the MERCOSUR partners and some leftist governments. MERCOSUR's most important initiative, an agreement with the European Union, has also been slow to materialize. In turn, NAFTA was replaced by the new United States-Mexico-Canada Agreement, signed in 2020.

5. Human development, poverty and inequality

a. Human development

The limitations of GDP per capita as an indicator of human development are well known. The Human Development Index (HDI), initially proposed by the United Nations Development Programme (UNDP), seeks to more adequately estimate the population's capacity to choose its lifestyles. The HDI is already 30 years old and over time it has undergone many changes. How to build it is still the subject of debate. What is shown in Figure 9 follows the proposal by Bértola and Gatti (2021).

It has already been shown many times that, when measuring the relative performance of Latin America, the various components of the HDI display different movements. While GDP per capita has shown a strong tendency to diverge vis-à-vis developed countries in the 20th century, education and life expectancy at birth show convergence movements. The aggregate result in terms of HDI depends on what type of index construction is used. In any case, the estimates show that there was a strong process of convergence between 1930 and 1980, approximately, which coincides with the period of state-led industrialization. Subsequently, the convergence continues moderately or fades (Bértola and Gatti 2021).

Throughout the cycle that we analyze in this essay, we see that Latin America resumed a process of convergence with the developed countries (Figure 9.D) of about five percentage points until 2013–2014, and then fell back slightly.

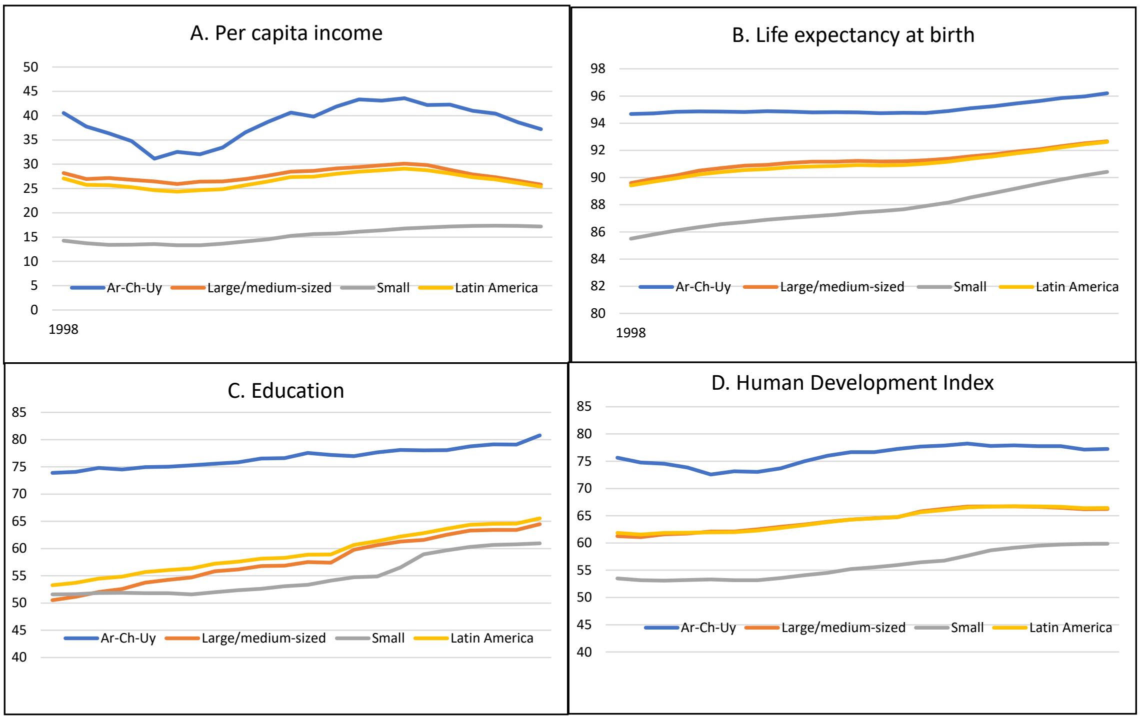
There are differences, both in level and trend, between the different groups of countries. Large and medium countries have a pattern very similar to the total one. There is no evidence of a fall with the crisis at the end of the century, but there is a slowdown in convergence over the years mentioned previously. Small countries always have a lower HDI level than the rest; they fared slightly worse than at the beginning of the century, but were then taken up by the convergence process, which continued until 2017. The countries of the Southern Cone, which always showed the highest levels, were the ones that suffered the most from the crisis at the end of the century, with a sharp drop in relative terms. They then closed the gap until the mid-2010s, before experiencing a relative decline similar to the average.

The pattern of the 20th century is repeated here. Figure 9.A shows that relative GDP per capita reproduces the cyclical movement of Latin American GDP, although with slight changes. At the end of the expansionary cycle we see significant relative deterioration. In short, from the point of view of GDP per capita, this very positive cycle failed to reverse long-term trends towards divergence. The smaller countries did manage to improve their relative positions somewhat, although from very low levels. The countries of the Southern Cone are the ones that show the phases of the cycle most markedly, with no clear result in terms of relative positions.

In terms of life expectancy at birth, there is a clear lag, since relative improvements are seen in the final years of the series, when the economic cycle had already changed direction. In this area we see a significant reduction in the gap between Latin American countries.

Lastly, in the field of education there is a more continuous process of shortening gaps: more permanent and pronounced in large and medium-sized countries and later in small countries, after a decade of poor relative performance.

Figure 9. Human Development Index and its components: Latin American regions in relation to the central countries, 1998–2019



Source: Own elaboration with UNDP data and construction of the indices according to Bértola and Gatti (2021).

b. Inequality and poverty

Many indicators show that during the upswing of the recent cycle there was a significant and widespread decline in the high degree of inequality that has historically characterized Latin America. This trend contrasts with the trend of rising inequality that was seen in many other regions of the world during this period.

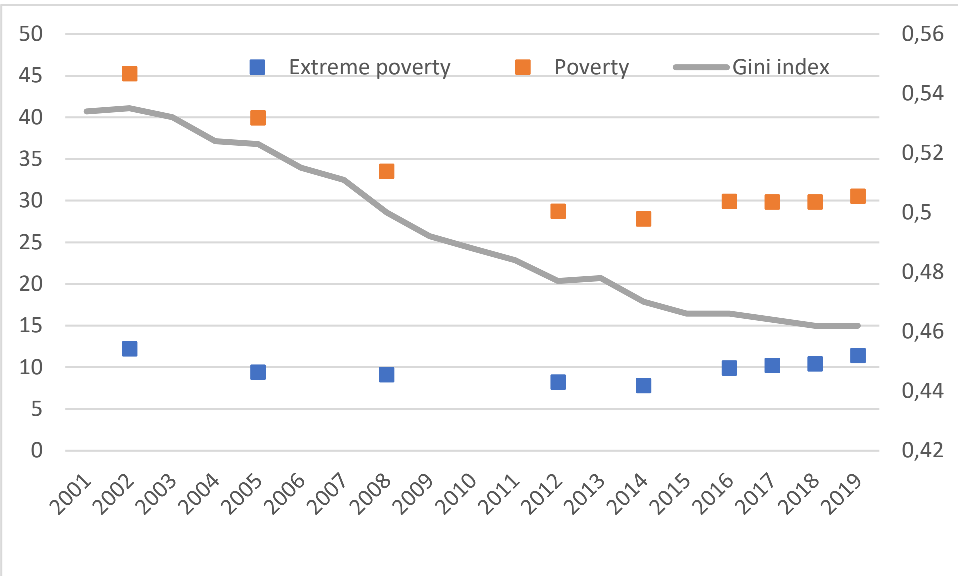
Figure 10 shows that the unweighted average of the Gini Index of the different Latin American countries fell substantially between 2003 and 2015, to later remain practically stable, with very slight reductions.

It is important to note that inequality measures based on household surveys always underestimate the income of the upper deciles. The income captured by the surveys is approximately 70% of GDP. For this reason, a recent trend has focused on the study of the highest income sectors, a method promoted by several analysts who now publish the *World Inequality Report* (see World Inequality Lab, 2017).

Some studies on Latin America have produced worrying results. Thus, Morgan and Souza (2021) show that, in reality, it cannot be confirmed that a reduction in inequality has taken place in Brazil during the first decades of the 21st century. In other cases (Argentina, Colombia, Uruguay), the results confirm the existence of a drop in inequality, although less pronounced.

Several interpretations of this reduction in inequality have been suggested. Some authors disassociate it from the boom in commodity prices, since countries like Mexico, where natural-resource exports are less important, also experienced the improvement in inequality; these authors thus argue that it was primarily due to the increase in workers with post-secondary education (López-Calva and Lustig, 2010). Cornia (2014) attributes it to a process such as the one highlighted in relation to Europe by Karl Polanyi, of reaction by various social and political forces against the increased inequality generated by globalization and liberalization at the end of the 20th century. In turn, early on he pointed out the limits of this reduction, should there be no changes in the patterns of productive specialization, in the levels of savings and investment, and in dependence on foreign capital. In its trilogy on inequality, ECLAC (2010, 2012 and 2014) highlights the role played by labor market institutions (minimum wages, wage-bargaining councils, employment formalization, social transfers, etc.), the impact of activity rates, including gender issues, and the impact of democratic consolidation in most countries on the power of the elites, without ruling out the role of market forces (greater supply of qualified labor and persistent demand for unskilled work) (Amarante and Prado, 2017). Bértola and Williamson (2017) present studies aimed at explaining the fall in inequality and its possible break with history, but they predicted the end of the egalitarian cycle. The change in phase of the cycle and the end of the supercycle of commodity prices led to the disappearance of some of the forces driving the reduction in inequality (employment level, for example). In turn, other forces, such as policy changes, may have had a strong impact at the beginning, but failed to generate major permanent changes. Even in this field, we can see some reversal of progress.

Figure 10. Gini index for Latin America (unweighted average)



Source: Prepared based on information from ECLAC

6. Lessons from history for regional development

This essay analyzes the development of Latin America during the first two decades of the 21st century, actually beginning in 1998, since the century began with the effects of the Asian crisis on the region, which became evident in that year. This crisis was followed by a period of growth which ended in 2014 and was largely associated with a supercycle of commodity prices. This period was interrupted in 2009, albeit only briefly, by the effects of the North Atlantic crisis. With the end of this supercycle, a period of virtual regional stagnation began between 2015 and 2019, succeeded by the dramatic economic and social effects generated by the COVID-19 pandemic. These phases have varying effects on the three groups into which we divide the region for our analysis: the Southern Cone, the other large and medium-sized countries, and the small ones. We also differentiate the countries by their growth rates, and in terms of trade patterns between the north and the south of the region.

Three important conclusions can be drawn from this analysis: i) Latin America has not been able to break with its historical pattern of development characterized by very marked cycles of boom and crisis, which generates highly unstable scenarios; ii) despite the rapid growth experienced in 2003–2014, the region has not been able to reverse the trends of divergence in per capita income with respect to the more developed economies and has not been able to replicate the dynamic processes of productive development that other emerging economies have experienced; and (iii) advances in some dimensions of human development (education and health) have not been reflected in systematic progress in terms of economic growth and reduction of poverty and inequality.

From this, in turn, three lessons are derived for the future. The first is that, beyond consolidating the progress made in macroeconomic management during the period of market reforms (which are in any case variable from country to country), there remains the immense challenge of managing the historical vulnerability of Latin American economies to external shocks. In this sense, the response to the North Atlantic crisis was positive, but the end of the commodity price supercycle gave way to a five-year period of very slow growth that was accentuated by the recession generated by the COVID-19 crisis. The countries of the region will inherit from this latest crisis, as in reality will most of the nations of the world, the sharp increase in the levels of public sector indebtedness. Overcoming the deterioration of fiscal conditions and supporting the recovery of economic activity and an active social policy have become great challenges during the new lost decade in which the region is immersed.

The second lesson relates to economic growth, which has been a frustrating issue for most Latin American countries during the era of market reforms. History indicates that fast growth cannot be achieved solely on the basis of sound macroeconomic conditions or patterns of specialization based on static comparative advantages. Proactive productive development policies—which were explicitly excluded from public sector agendas during the market reform phase—are also needed, including strong technology policies, which had also been weak during the period of state-led industrialization. Although progress was made on this front during the period under review, it was generally timid, under-resourced, and overtaken in many countries by the lure of producing commodities during the commodity price supercycle. Therefore, it is essential not only to promote the productive development agenda and policies, accompanied by the consolidation of advances in education, but also to address the shortcomings of the educational system in terms of quality.

The third and most important lesson has to do with the enormous social debt that Latin America has accumulated throughout its history. The improvements at the beginning of the 21st century in terms of equity and poverty were interrupted with the end of the growth period and have been displaced by the strong adverse social consequences of the new lost decade that is underway. Moreover, the contrast between these results and advances in human development indicate that social policy is not enough, by itself, to advance in terms of social equity.

These lessons have important implications for an issue that has long been the subject of regional controversy: the relationship between the state and the market. International experience tells us that the right mix of state and market is crucial, but it also shows us that there is no single best design to achieve positive synergies between the two. However, history shows us that societies can build significant improvements in their living conditions when solid political initiatives are taken. Examples include the development of the productive sector during the period of state-led industrialization and advances in human development during that period, as well as the positive distributional trends of the early 21st century. Education and technological development must be at the center of the State's reform efforts in the future. Added to all this is the enormous global challenge of finding development paths that are environmentally sustainable, which must be addressed equally at the national and regional levels. This challenge only reinforces the importance of the role of the State, so that environmental sustainability, growth, democracy, and equity can be combined.

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