Latin America: Neoliberalism and Globalization

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I. Introduction

The following paper explores the absence of development as a goal apart and different from growth in neoliberal policies, as well as the absence of social and historical analysis necessary before suggesting or designing policies that should be country-specific. It compares the process of regionalization as an alternative to globalization, or as a first step to become integrated in the global economy, and explores the differences between Latin American and South East Asian economies that merit different policy approaches to close the technological gap between the developed and developing countries; attract more capital flows, and institutionalize factor accumulation.

The paper reviews a series of articles regarding globalization and its potential effect on Latin American economies Both protractors and defenders of neoliberal globalization use the countries of East Asia as a model, either to argue that neoliberal policies are a harbinger of good news and promising growth, or to show that growth and development have not and will not take place in developing countries through such poIicies. Gundlach and Nunnekamp are among those who defend and present neoliberal policies in East Asia as the major source of growth, contrasting this with the lamentable situation of Latin American countries and their policies of intervention. The Geneva South Centre, on the other hand, attempts to show how the “recipe” of the South East Asian dragons is no such thing; the path to quick growth followed by these countries was not based on neoliberalism but directed intervention, especially in capital and financial markets. Moya Lopez adds the dimension of society and social unrest to the realities of austerity and liberalization pushed by the international community of developed countries on the volatile, pauperized peoples of Latin America. And Raquibuz Zaman attempts to show that a “baIance” of neoliberal policies and “welI-focused” intervention can make the dfference between growth and lack thereof.

II. Globalization and Latin America

Most contemporary definitions of development take into account the social, cultural, and political factors hidden inside "market relations" and economic indicators. Nonetheless, neoliberal economists insist on prioritizing the quantifiable, purely economic elements as the spearheading forces of development. In some cases they relegate development with its messy qualitative variables and multi-disciplinary requirements to a secondary position relative to growth. Texts, articles, conferences and policies focus on economic *growth* as if growth in itself were the ultimate goal, social changes and progress are valued in the face of growth: equality is positive because it contributes to growth; education is positive because it increases the value of human capital; justice is positive to the degree that it ensures social order; stability is good because it attracts foreign direct investment and capital. And growth is directly related to full integration into the international market, increasing flows of foreign direct investment and capital, and successful application (not generation) of technological change, which requires a valuable stock of human capital.

Gundlach and Nunnenkamp (1998) begin their neoclassical analysis of globalization by pointing out that "many observers draw an overly pessimistic picture of the perspectives of [Developing Countries] DCs in the era of globalization mainly for three reasons." They enumerate these as: (1) institutionalized regional integration schemes do not include privileged access for DCs; (2) there is a low level of technological cooperation between rich and poor countries; and (3) foreign direct investment (FDI) flows tend to be concentrated in a few "advanced DC hosts" (p. 153). The rest of the article is devoted to countering these statements, drawing the conclusion that open DCs that are fully integrated into the international markets both of capital and commodities are the most likely to benefit from globalization, "[catching up] with industrialized countries" (p. 171). Latin America is solely responsible for its failure to catch up with industrialized countries: growth depends exclusively on government policies, and Latin American policies pursued protection and separation from international markets instead of integration.

A. Regionalization vs Globalization

The lack of privileged spaces for DCs in strong regional blocs such as the European Union and NAFTA (where Mexico is the only DC "beneficiary") is not a relevant negative factor. The authors argue that regional linkages, institutional or not, "are just one among many other factors that determine whether a country will participate successfully in globalization." "Macroeconomic stability, a high rate of factor accumulation, a relatively undistorted trade regime and openness for international capital flows" are much more important for investors than privileged access to a large market (p. 157). Market access per se does not ensure competitiveness; besides, DC trade flows have not suffered from the regionalization of Europe, and changes in trading partners and content of these flows have responded to domestic changes in competitiveness and production (p. 158). They also add that if regionalization dominated over globalization worldwide FDI flows would divert away from non member DCs. The only moment when this happened was "largely because of homemade economic disturbances in Latin America" (p. 159). Otherwise, the share of FDI reception in DCs has doubled, while that of the EU has decreased.

B. Technological Lag

The technological gap between industrialized and developing countries is a fallacy: although factor endowments prevailing in DCs prevent a stronger role in the *generation* of technological innovations, strategic technology alliances can be sought in the *application* of internationally available technologies (p. 160). Developing countries lack the capacity to be at the forefront of technological change, but this does not mean that they will be unable to benefit from the globalization of technological progress. International trade in capital goods and FD1 are the ideal means of technology transfer, if DCs specialize according to their comparative advantages (pp. 161-163). This view is in fact very old: developing countries should specialize in their comparative advantages and should be satisfied with being recipients of technology instead of creators. Given the low standards of technological generation in DCs, closing off from international markets would result in technological backwardness; while openness to international markets will slowly increase the technological capacity of DCs.

C. FDI Flows to Elite DCs

Although FDI flows today favor some host countries over others, the fact is that patterns of FDI flows change over time. In 1980 Latin America commanded 73.1 % of the worldwide share of FDJ flows; in 1995, this proportion had dropped to 20.2%. With the opening of China, the proportion of FD1 to East Asia increased from 15,7% in 1980 to 60.9% in 1995. Since 1994, FDI to Latin America has been recovering and may continue to do so "in the aftermath of major economic crises, once consistent domestic policy reforms comprising macroeconomic stabilization and structural adjustment are implemented" (pp. 164165).

D. Openness and Factor Accumulation

Gundlach and Nunnenkamp attempt to prove their theory that openness ultimately benefits developing countries using a series of neoclassical growth models. They mathematically conclude that openness strongly conditions developing countries' growth performances (i.e., convergence rate to steady state). In an open economy, physical capital is assumed to be internationally mobile, whereas in a dosed economy, it is immobile (human capital is assumed to be immobile in both). Given the structures of Latin American economies (as all other developing countries), the share of physical capital in factor income is much larger than in OECD countries. Taking labor force growth and depreciation into account as well, the authors demonstrate that openness leads to better economic performance (convergence rates for open DCs are predicted to be 4.5% whereas dosed DCs could expect 1.8%, taking twice as many years to reach halfway their steady state).

This model leaves no room for non economic variables (as do most economic models), especially changes in the international market and domestic as well as international policies. It does not take into account political or social variables that may affect both labor force growth and the degree of mobility of both human and physical capital.

III. Latin America vs. South and East Asia

The main arguments presented by the authors rely on a major distinction: Southern and Eastern Asian economies have grown while Latin American economies have either shrunk or grown very little. This contrast apparently cannot be attributed to differences in resource endowments, but to policies pursued independently and autonomously by the states in each of these countries.[1] The only important differences between the two groups of countries have been the policies of integration, openness, and free trade pursued by Asian economies. Another neoclassical theorist following the same line of thought adds that an additional difference was the Asian investment in education and emphasis on achieving a modicum of equality through agrarian and other types of social reform (Zaman, 1998). But grouping the extremely diverse Asian economies as well as the diverse Latin American economies in terms of state policy presents a problem. The South Centre (1996) points out that during a long period of time, Latin American economies were much more open to the international market than Asian economies: import substitution industrialization was heavily pursued by various Asian countries, and tariffs as well as controls over foreign capital flows were strict. Gundlach and Nunnenkamp fail to see the historic evolution of economic policy of South and East Asia, although they attribute Latin America's failure to its own historic policies.

Even more relevant, not one single Latin American country experienced much growth during the 1980's, regardless of policy differences, while Asian economies either grew a lot or held on to their growth patterns. And policies varied across countries across regions: the major regional variation is that banks did not resume lending to Latin American countries until the 1990's, regardless of domestic policies; while they continued lending to Asian countries.[2] Once lending was resumed, liberalized financial regimes imposed by multilateral agencies led to volatile capital flows dominated by portfolio capital (South Centre, 1996). Policies regulating capital flows and foreign investment in Asia, on the other hand, were largely under the control of local governments and not imposed by multilateral agencies except in a few cases.

One of the major weaknesses of the article presented by Gundlach and Nunnenkamp is the abundance of statements with implicit assumptions that remain unexplained, unquestioned, and unqualified; i.e.: "it mainly depends on domestic economic policies whether DCs can successfully grasp the chances for catching up involved in globalization" (Gundlach and Nunnenkamp, 1998, 154). Implicit in this statement is the assumption that all DCs have the power to set domestic economic policies, which given the structure of multilateral lending agencies seems unlikely. But this statement also assumes all states are autonomous and sovereign, whereas 'in view of its historical evolution and its relationship with various social groups (for example, landed interests and often labour) the Latin American state has much less "autonomy" than its counterpart in East Asia" (South Centre, 1996, 48). The permeating presence of US economic and political power is of crucial importance in Latin American policy-making, especially in smaller or more vulnerable countries.

Finally, there are implicit contradictions in statements that isolate domestic economic policy and domestic economic performance from international policies and performance while arguing in favor of globalization: how Independent are less powerful countries to set their economic policies?[3] Although the authors agree that once a country Is integrated into international trade and capital markets, policymakers will have less control over domestic policy, they still attribute regional failures (or successes) to country specific policies.

An alternate view presented by the South Centre and other critics of neoclassical economics suggests that Latin America's failure had a lot to do with exogenous factors. The world economic slowdown combined with policy changes of major industrial countries at the end of the 1970s and early 1980s caused Latin American countries to experience four kinds of shocks: "a demand shock to developing country exports; a consequent fall in commodity prices and a terms of trade shock; an interest rate shock; and a capital supply shock" (p. 42). It was Latin America's openness to international trade and its reliance on foreign capital flows and foreign direct Investment what made it more vulnerable to such shocks.[4]

Zaman argues that indeed, domestic policy is the major factor determining whether globalization o will benefit a country or not. But his approach does not lead him to conclude, as Gundlach and Nunnenkamp do, that integration into international trade and capital are the only relevant policies to harness the benefits of globalization. He concludes that it was not Latin America's closed state what led it to stagnate during the while Asian economies grew and prospered, but that "Latin Americans paid scant attention to Its 'impoverished majority" (p. 251). Asian countries pursued active policies to increase equality and education, "beginning with primary education, followed by emphasis on vocational training and skills, and then graduate level science and technology oriented education" (p. 250). But then he goes on to attribute the success of countries such as Chile to trade liberalization "under General Pinochet". Chile has one of the widest income gaps in Latin America, if not the widest. Gundlach and Nunnenkamp agree that investment in human capital is perhaps more important than physical capital accumulation as a driving force to economic growth (p. 167); but subsume this argument under the overarching free trade imperative.

IV. Conclusions

Gundlach and Nunnenkamp conclude that openness to globalization and integration into the international market have caused the successful growth of South and East Asian economies: full and rapid integration is then advocated as the only intelligent policy background for all DCs. Yet, China has had impressive double digit growth for years but the government "maintains a wide range of controls on imports, capital movements, and FIDI" (South Centre, 1996, 38). And Taiwan's government share of the industrial and banking sectors was bigger in relative terms than Mexico's, Argentina's, or Brazil's during the 1970's (p. 47). Zaman praises Asian economies for pursuing import substitution "at appropriate times" and rebukes Brazil for protecting its domestic industries (pp. 250-251).

The fact that the economically successful Asian countries paid attention to social factors such as education and equality (to a small degree) before engaging export led economic policies and trade liberalization is overlooked by neoclassical authors arguing against social spending. Taxes and other redistribution mechanisms are seen as destabilizing the macroeconomic environment; investments on development projects increase the public deficit; price distortion and inflationary growth are close to blasphemy; and the content of FDls is ignored as long as there is any. All these policies point to economic growth as the goal of the states, as if growth were a self sustaining mechanism that once set in motion will not stop (given that control over domestic economic policy diminishes with integration). But what about development?

Human development and economic growth are intimately related, but if the chosen goal is growth, policies will be different. If education is defined as a means of increasing the value of human capital, then teaching art, literature, dance, theater, ancient Chinese philosophy, etc., should be sacrificed to applied or technical learning: computer expertise, technical writing, problem solving capacities, scientific research (maybe). If transportation is defined as a means of reducing costs for distribution of goods, then environmental degradation will be a necessary evil to deal with the later. If stability is regarded as the most important condition to attract foreign direct investment and capital, then social change will be put off and repression of local elements demanding change will follow. Development should be the guiding principle, and growth the most important means to attain it: policies must combine both these strategic objectives. Otherwise, growth might impair the occurrence of development, and if that were the case, even growth will be short lived (as evidenced in Latin America's lost decade).

Embracing the paradigm of neoliberal globalization only because it is the paradigm in style is not a basis for sound policy: if it is true that economic performance in the globalized economy depends mostly on domestic policy, it would be wise to revise all empirical and conceptual arguments instead of going with the flow. Domestic policy, over all, should be set to improve domestic conditions, not to please foreign (or local) ideologues.

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1-History, culture, political relations, racial or ethnic diversity, and intemational structures of power are not considered relevant by economists because they are not economic variables.

2-The refusal of banks to lend to other Latin American country after Mexico's debt service debt crisis is contrasted to the ability of Asian countries "as heavily indebted as Mexico or Brazil, [with] relevant macroeconomic indicators (current account deficit, budget deficit, inflation) [...] worse than those two Latin American countries" such as South Korea to continue borrowing (South Centre, 1996, 44).

3- This question is especially relevant to Latin America, especially given Cuba's embargo and the Cold War itself.

4- Latin America's lion share of FDls in 1980 should point to the openness of Latin American economies in terms of capital markets.

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