THE GLOBALIZATION AT A CROSSROAD AND LATIN AMERICA WITH ITS STRUCTURAL PROBLEMS
The complementarity between industrial and social policies

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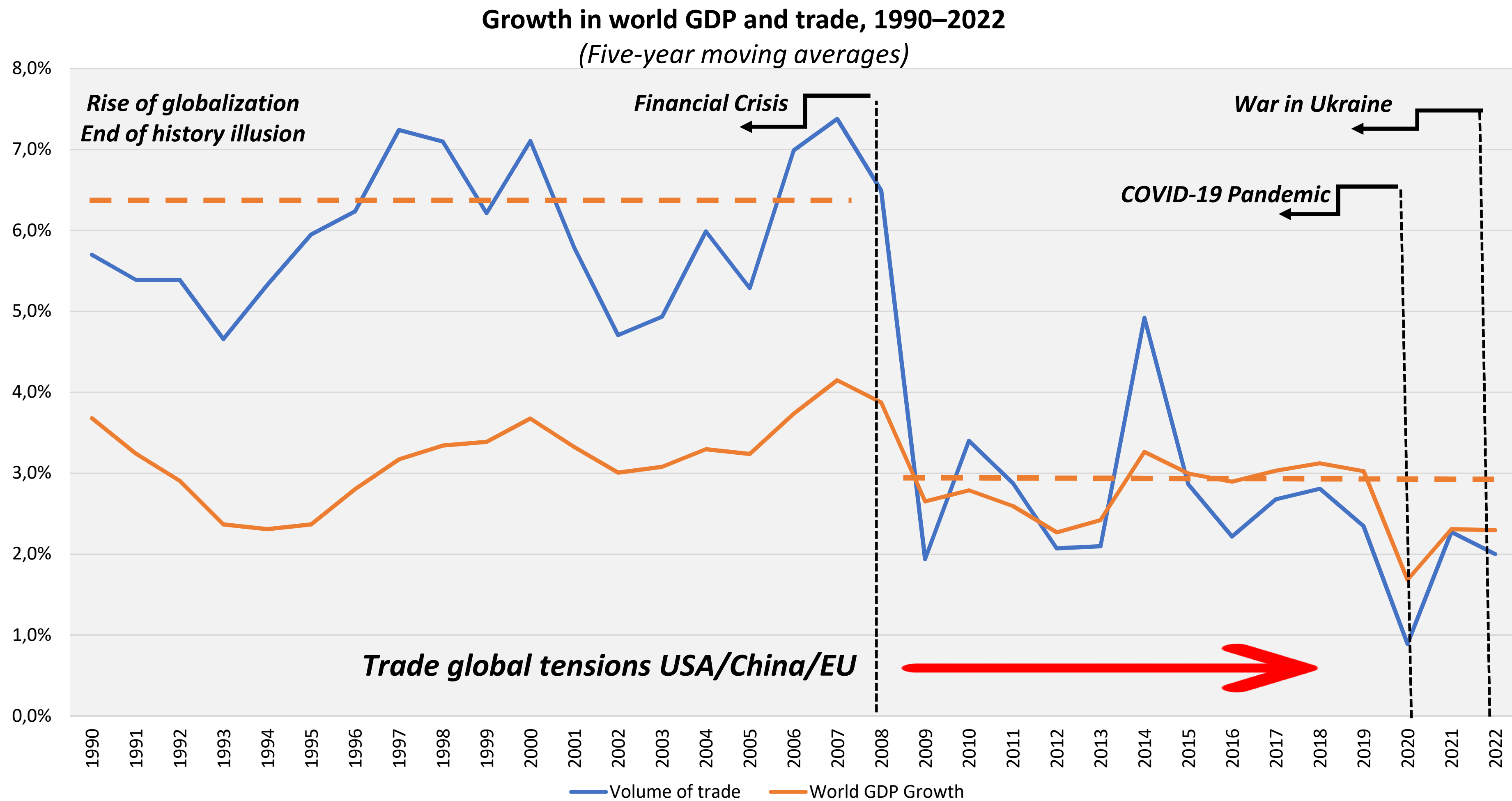
- ***Without industrial and social policies: structural inequality***
- Poor efficacy/efficiency of public policies
- **Need for active/complementary industrial and social policies**

Not one crisis, but a succession of accumulative shocks



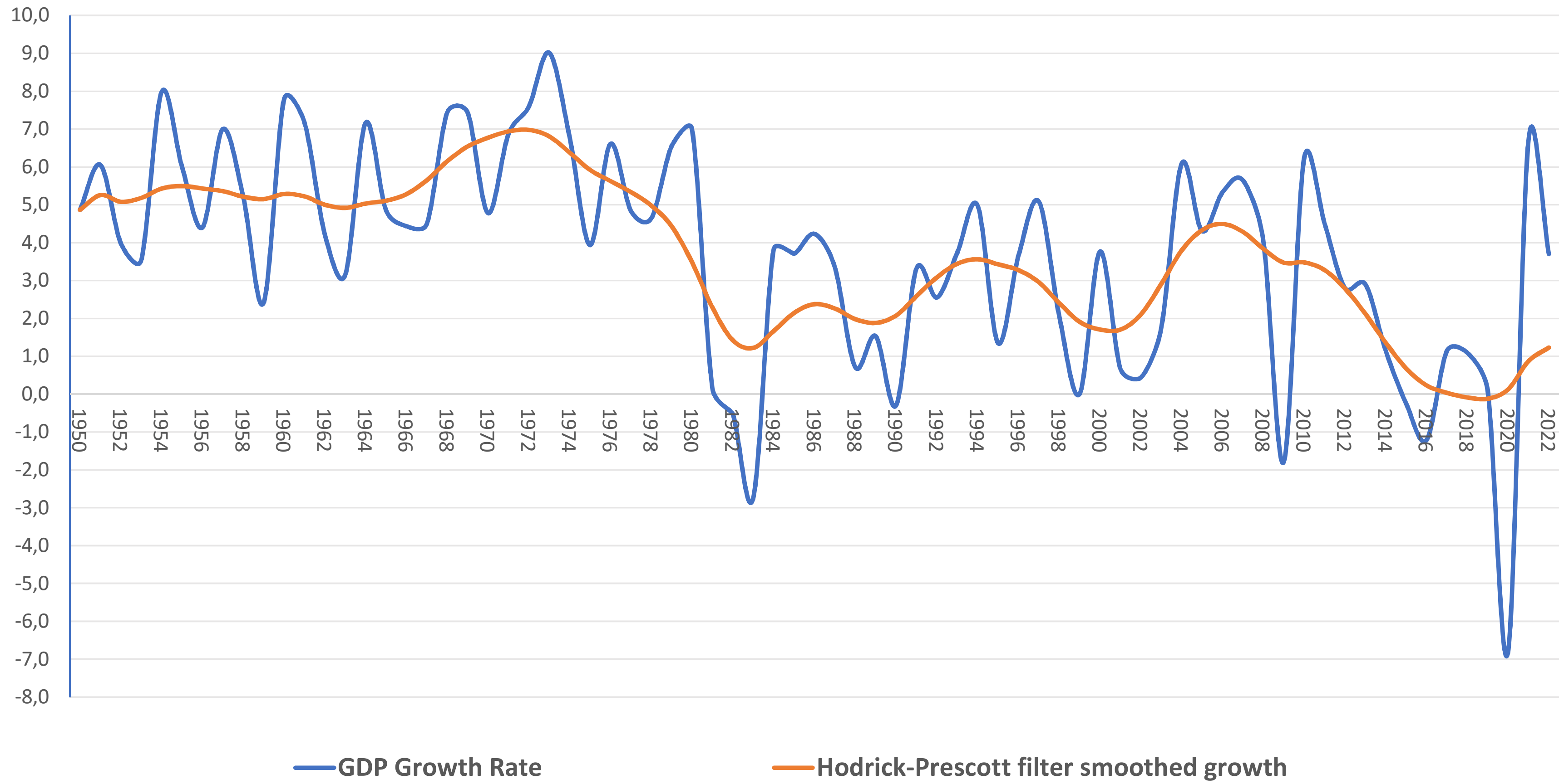
Emerging models of production
Looking for national/regional resilience

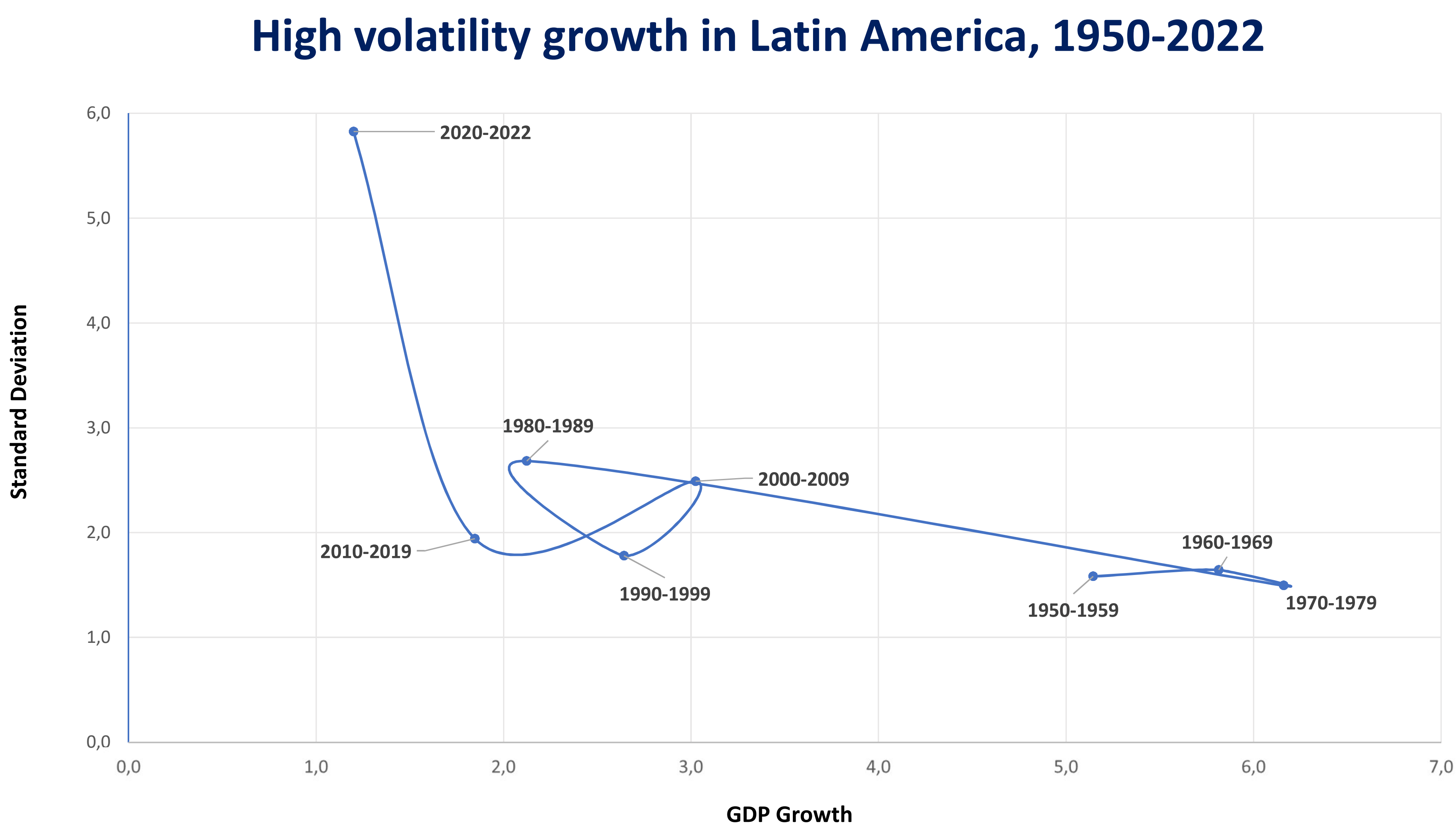
Area	Existing Model	Emerging Model	Description
Business model	**“Just-in-time”**	“Just-in-case”	Relying on a combination of larger stocks of inputs and final products and diversification of suppliers. This approach is intended to mitigate risks of disruptions and shortages.
Organization of production	**Value chain extension**	Value chain shortening	Reducing the stages of production located overseas or the shares of foreign value added integrated into production.
	Offshoring	Backshoring, onshoring, reshoring or nearshoring	Shifting production to industrialized countries from developing ones (often driven by proximity to final consumers and flexibility in logistics).
		Ally and friend-shoring	Shifting production to trusted countries that adhere to core values about how to operate in the global economy and that share strategic interests.
Guiding principle of industrial and trade policy	**Efficiency-seeking** **Market-seeking**	Resilience-building	Engaging with trade partners and promotion of local production based on the protection of national security interests and adherence to a rules-based order to security and labour rights.
Foreign trade paradigm	**Globalization**	“New Bretton Woods”	“Free but secure trade”, including measures to ensure the continuity of strategic supplies during times of crises. Trade relations shifting away from multilateralism and strategic competitors; reappraisal of regional and bilateral solutions.

Beyond specialization: the comparative advantages *à la carte*

Factor	Impact	Effect
Geopolitical	Trade conflicts first and the war now have shown that geopolitical conflicts have impacts on specific GVC and knowledge hubs (digital technologies, fertilizers, wheat).	Geographic and supplier diversification and domestic development of strategic production
Technological	Digital technologies and automation are strategic assets and are changing sectoral borders	Investments in digital-technological capabilities development. Race to technology control (public incentives to technology development and possible «blocks» based on thechologies and standards)
Environmental	Extreme effects of climate change might affect specific countries and/or production hubs and propagation effects can be high. Increasing environmental regulations.	Supplier diversification, shortening of production chains. Changes in location decisions.
COVID-19	Longer value chains are more exposed to «global risks». During crisis coordination and international regulations collapse.	Suppliers resilience and diversification. Regionalization and reshoring.

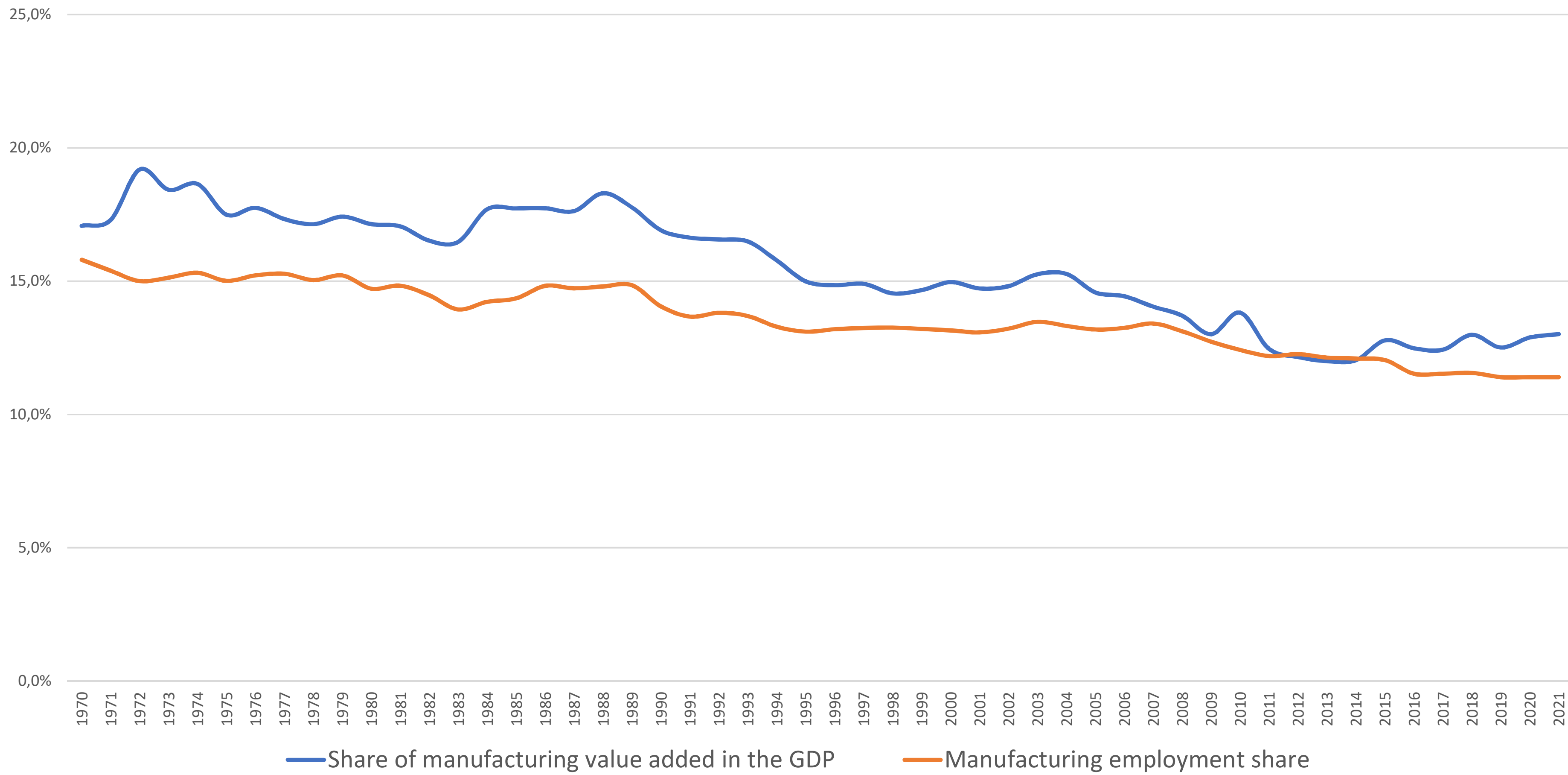
Unstable/poor (structural) growth in Latin America, 1950-2022




High volatility growth in Latin America, 1950-2022
Standard Deviation
GDP Growth
6,0
5,0
4,0
3,0
2,0
1,0
0,0
0,0
1,0
2,0
3,0
4,0
5,0
6,0
7,0
2020-2022
1980-1989
2000-2009
2010-2019
1990-1999
1960-1969
1950-1959
1970-1979

Premature and persistent deindustrialization

LAC: Share of manufacturing value added and employment in GDP – 1970-2021



Worse forecasts for growth

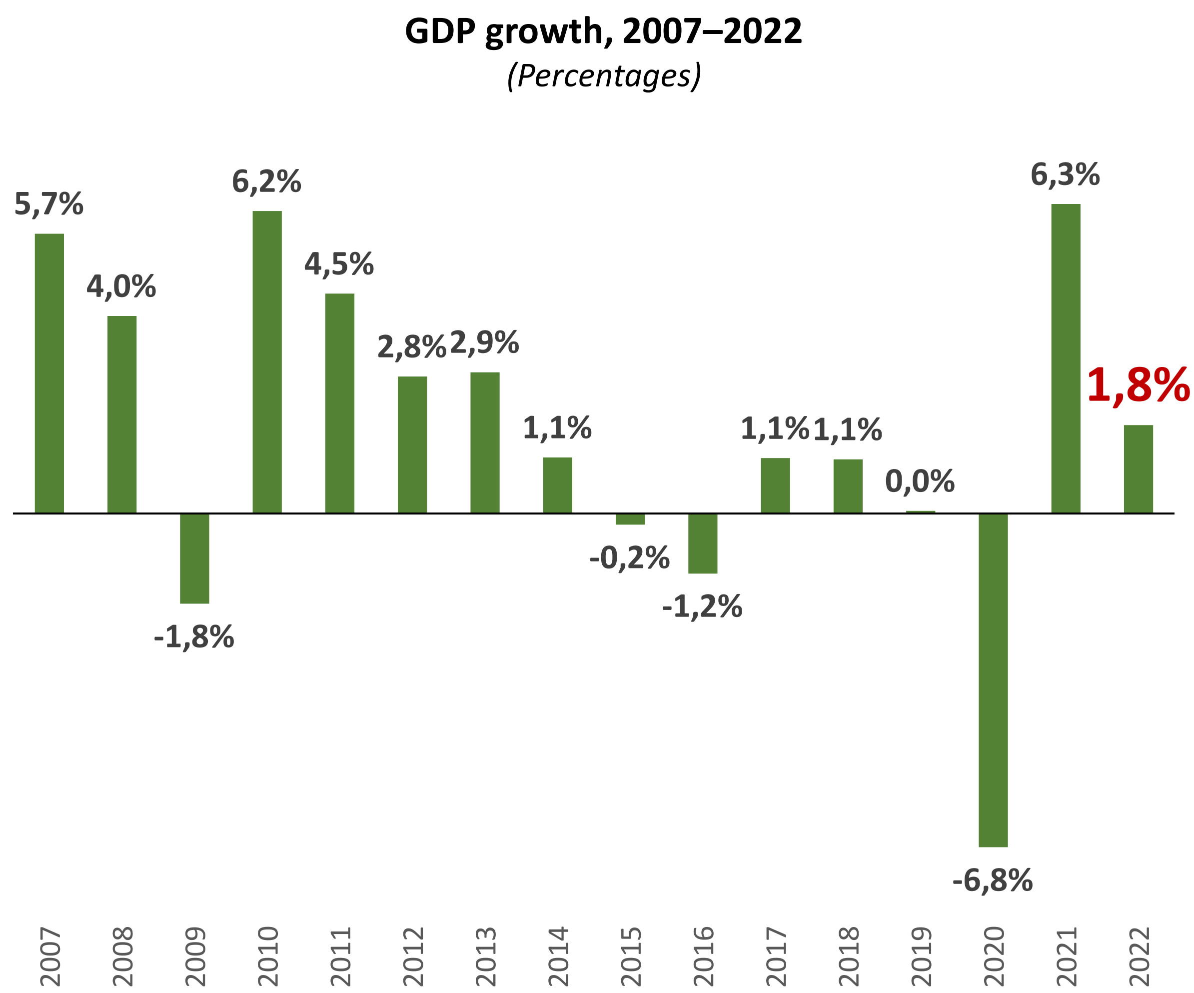
2014–2019: a meagre 0.3% per year

Following the rally in 2021,

we estimated growth of 1.8% in 2022

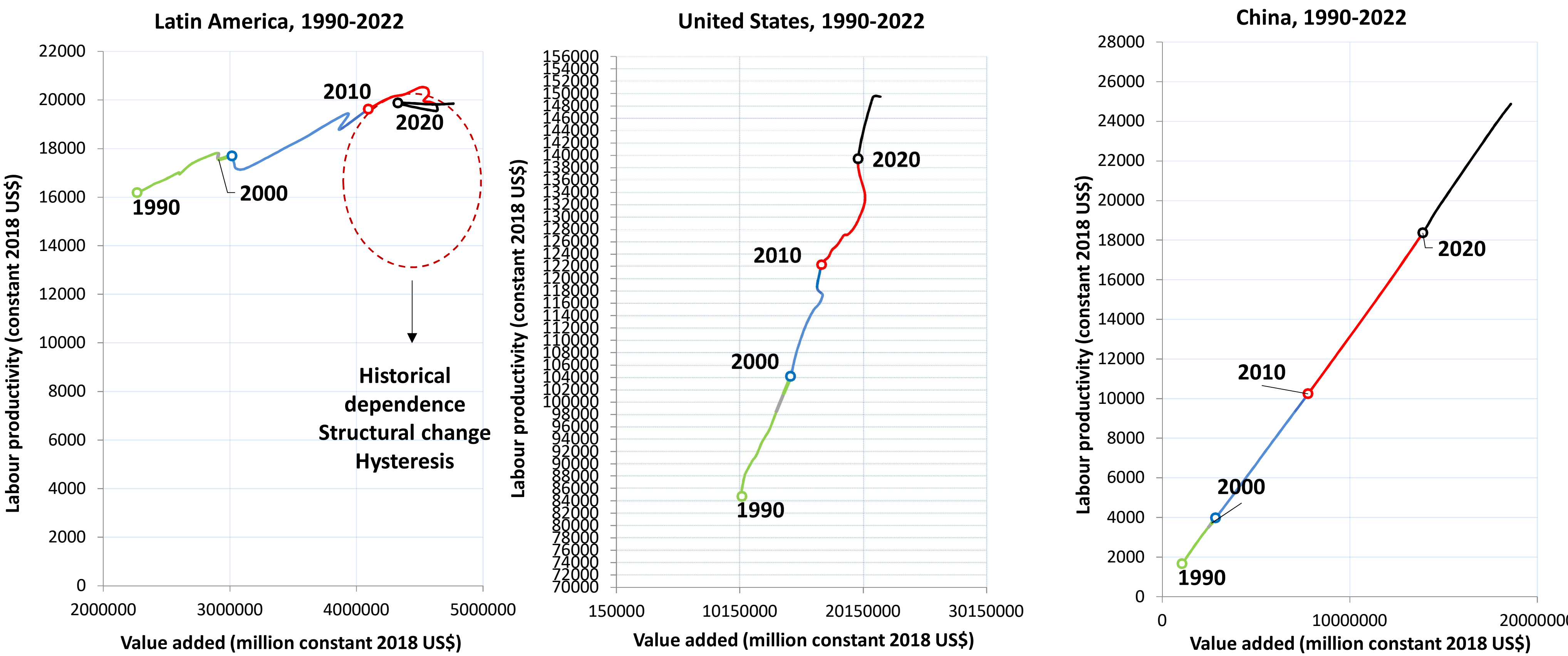
0.3 percentage points less than

we forecast in January

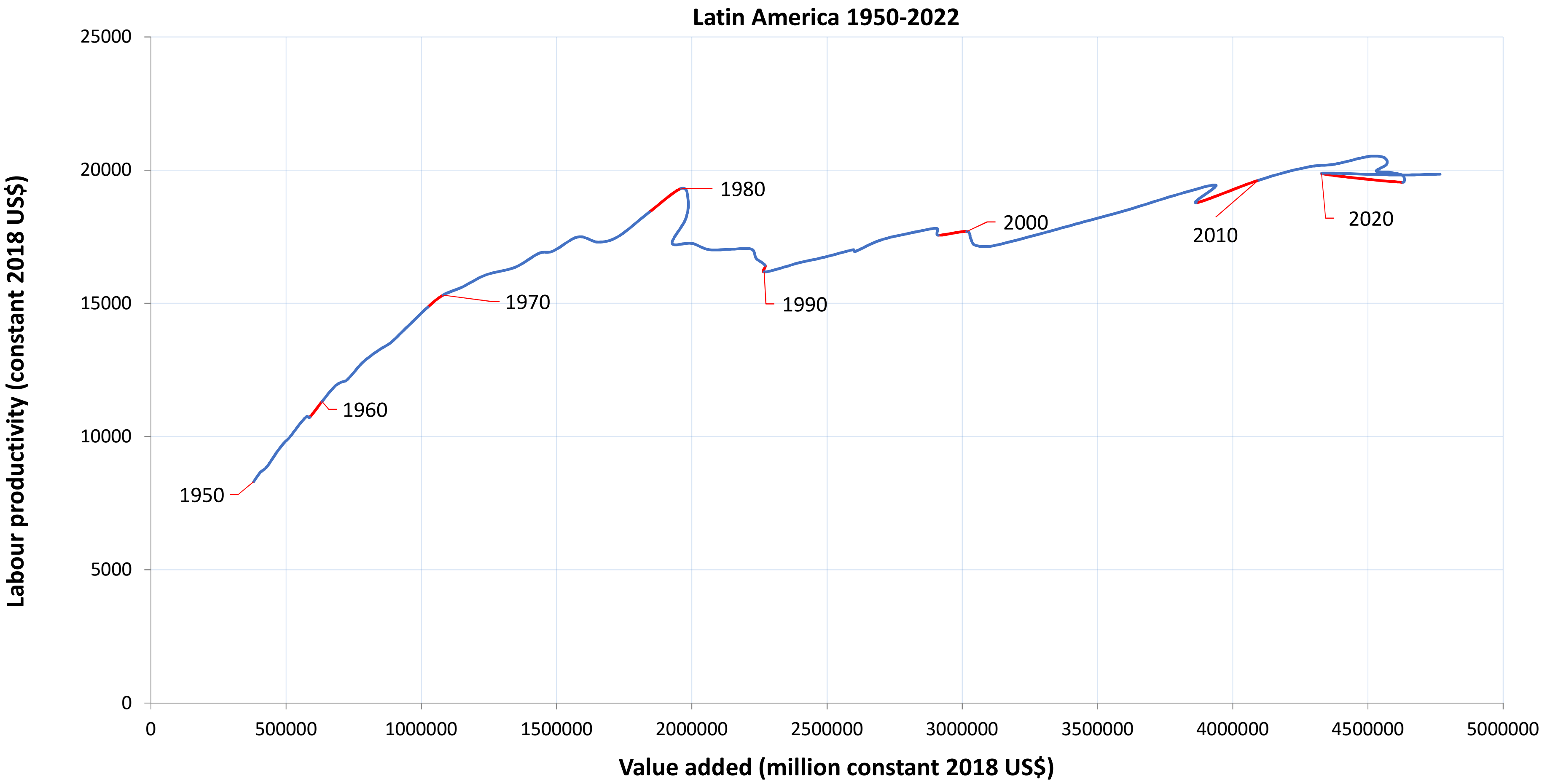


Dynamics of learning paths: transition/hysteresis vs a virtuous path

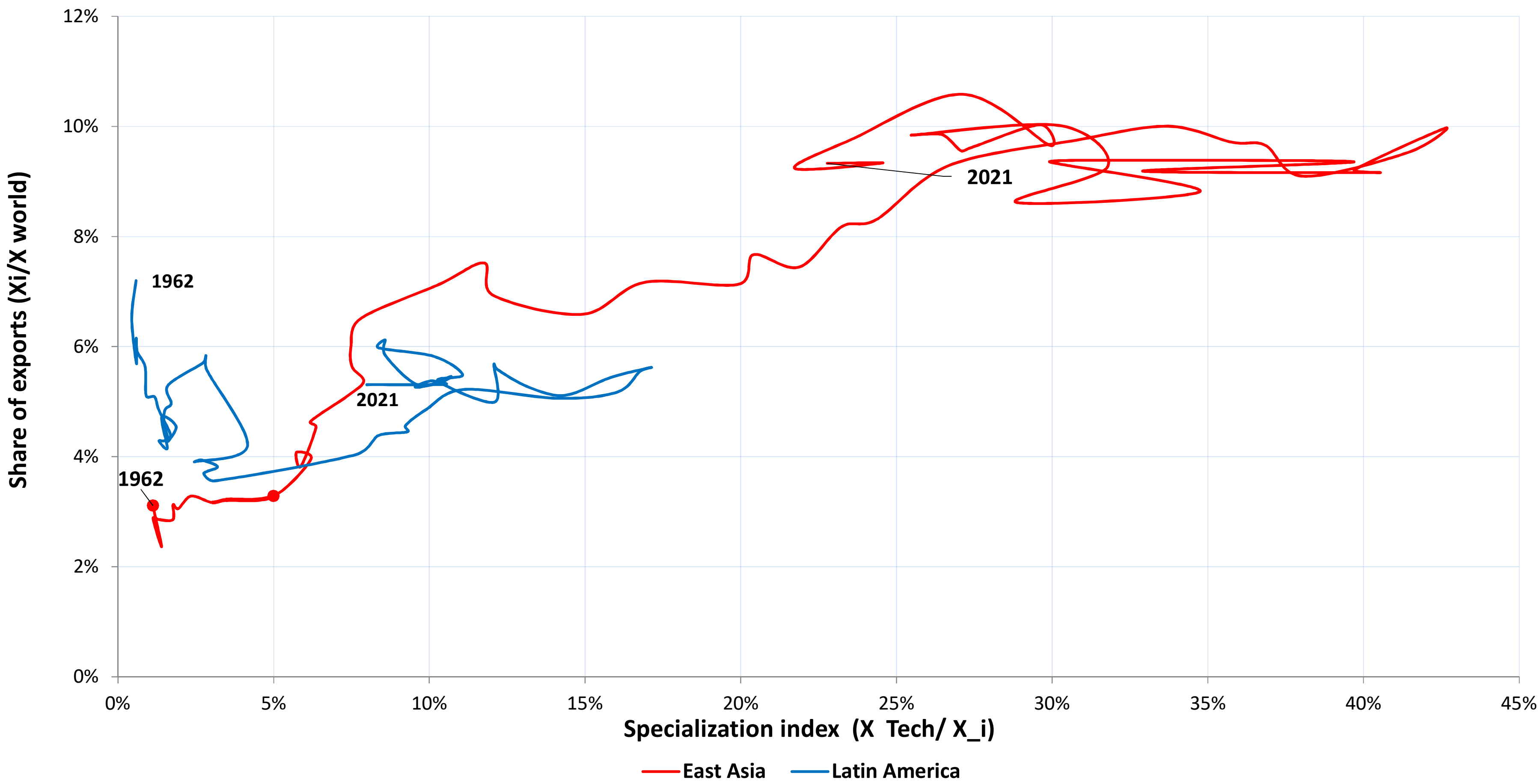
Labor productivity and value added, Latin America, United States and China



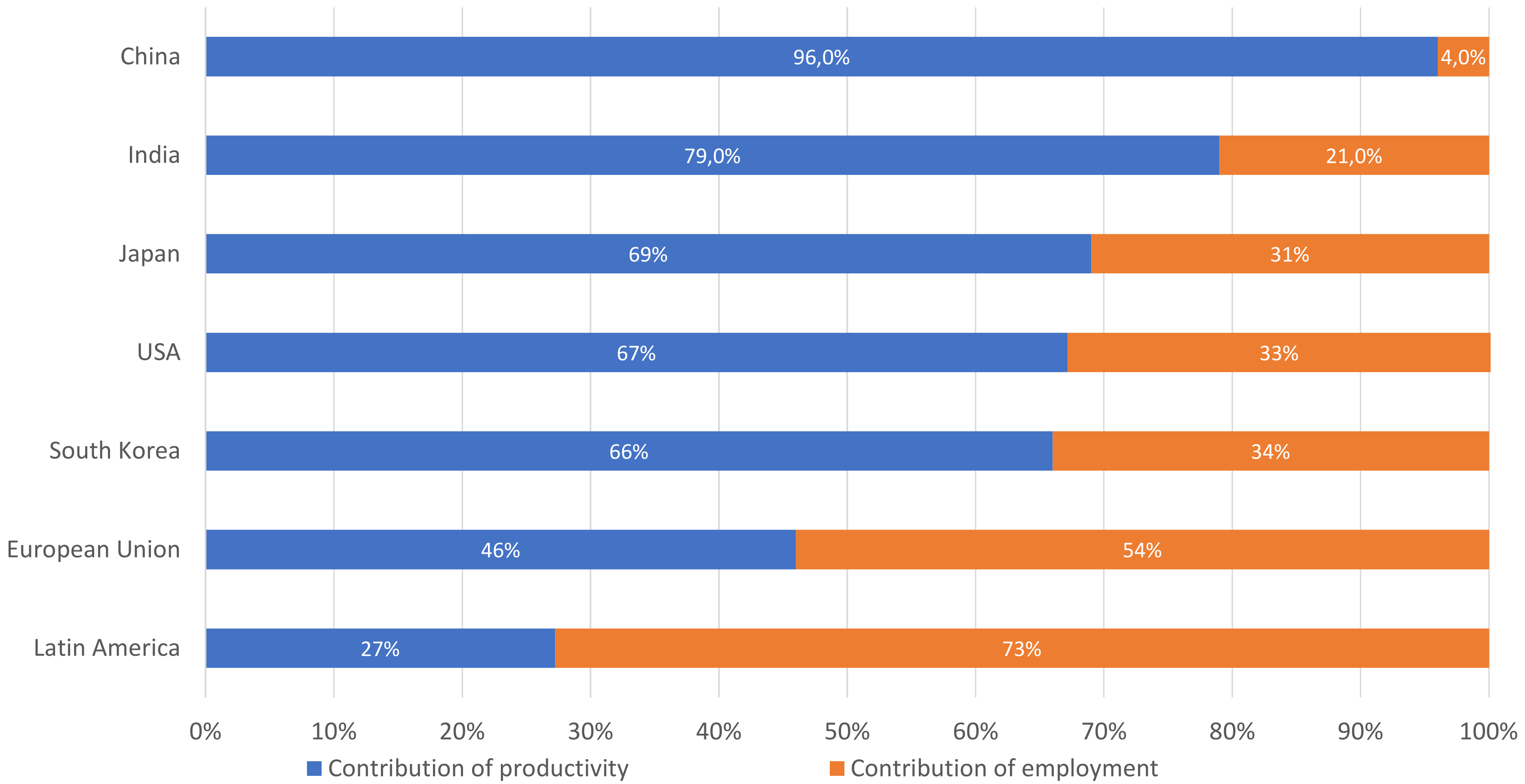
Traverse and hysteresis in Latin America, 1950-2022



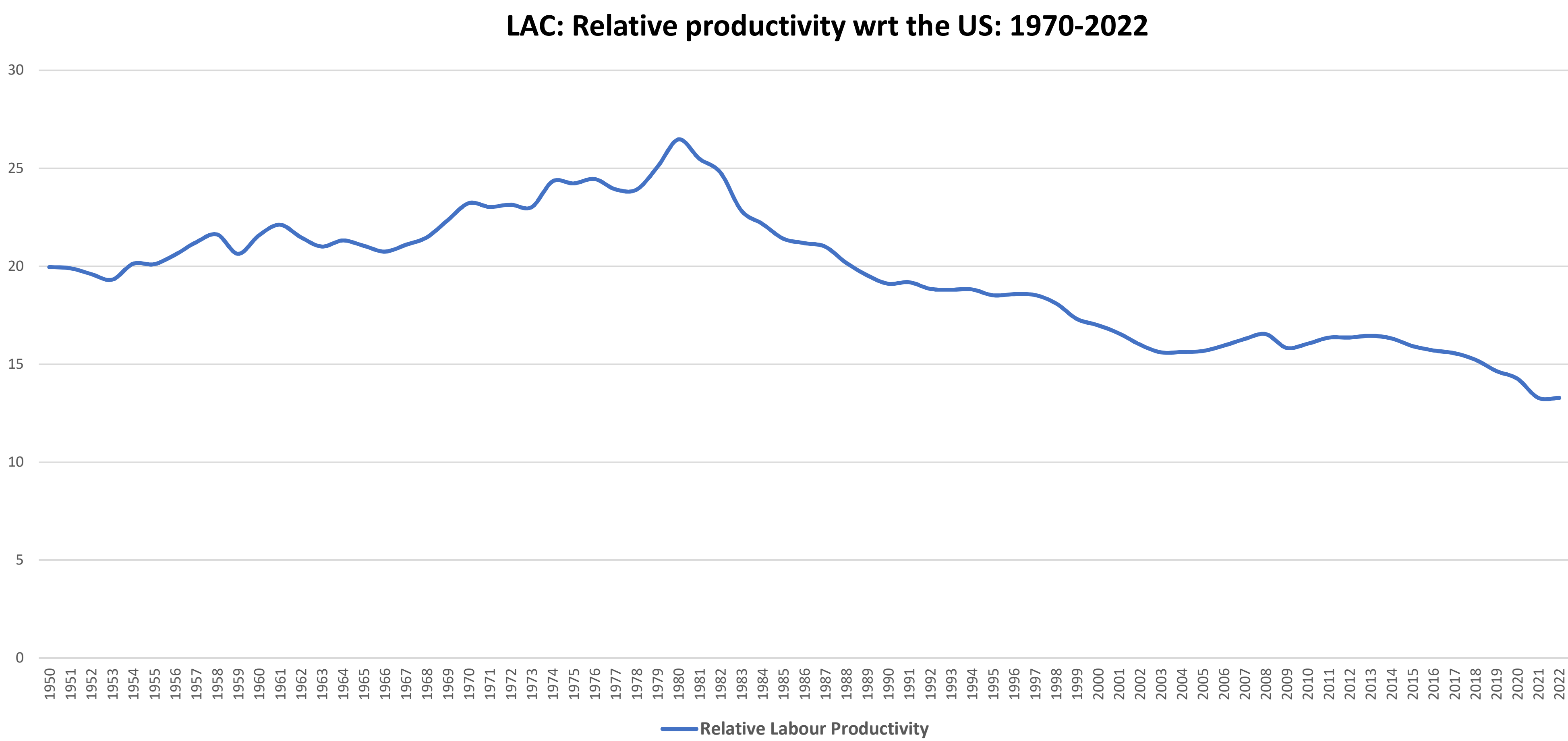
Structural change has been weak in Latin America and the Caribbean



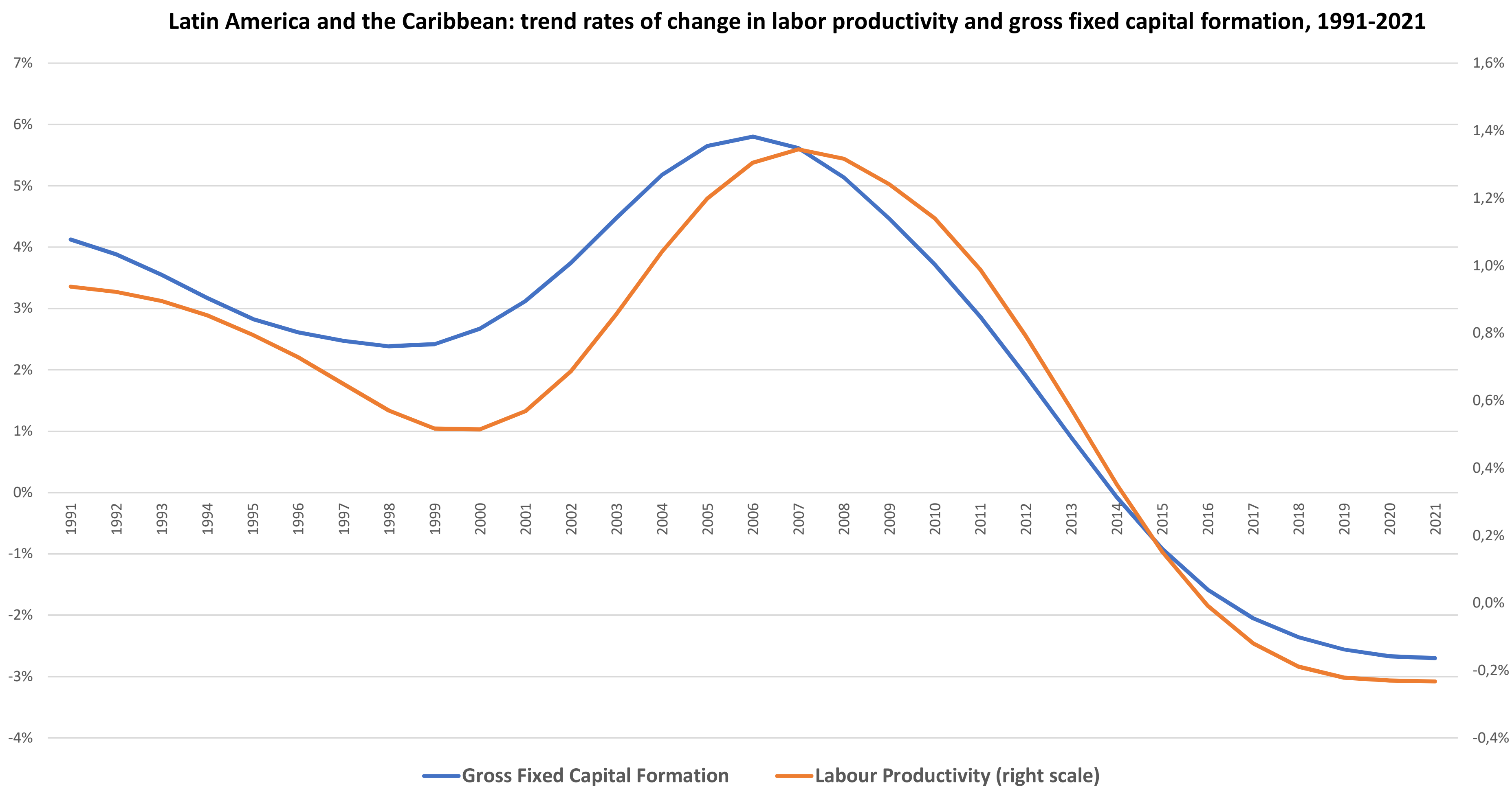
Decomposition of GDP growth, 1990-2022



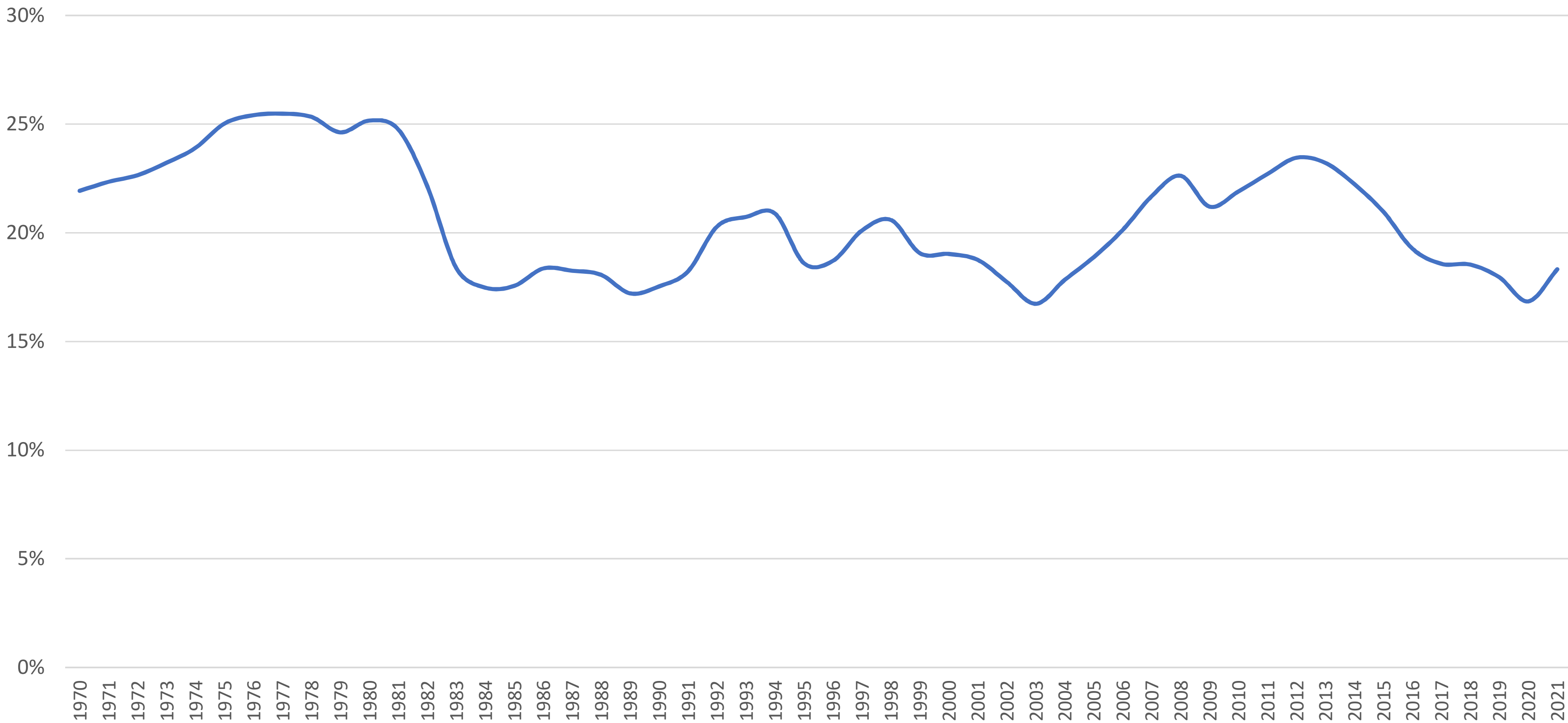
Latin America has lagged behind in relative productivity



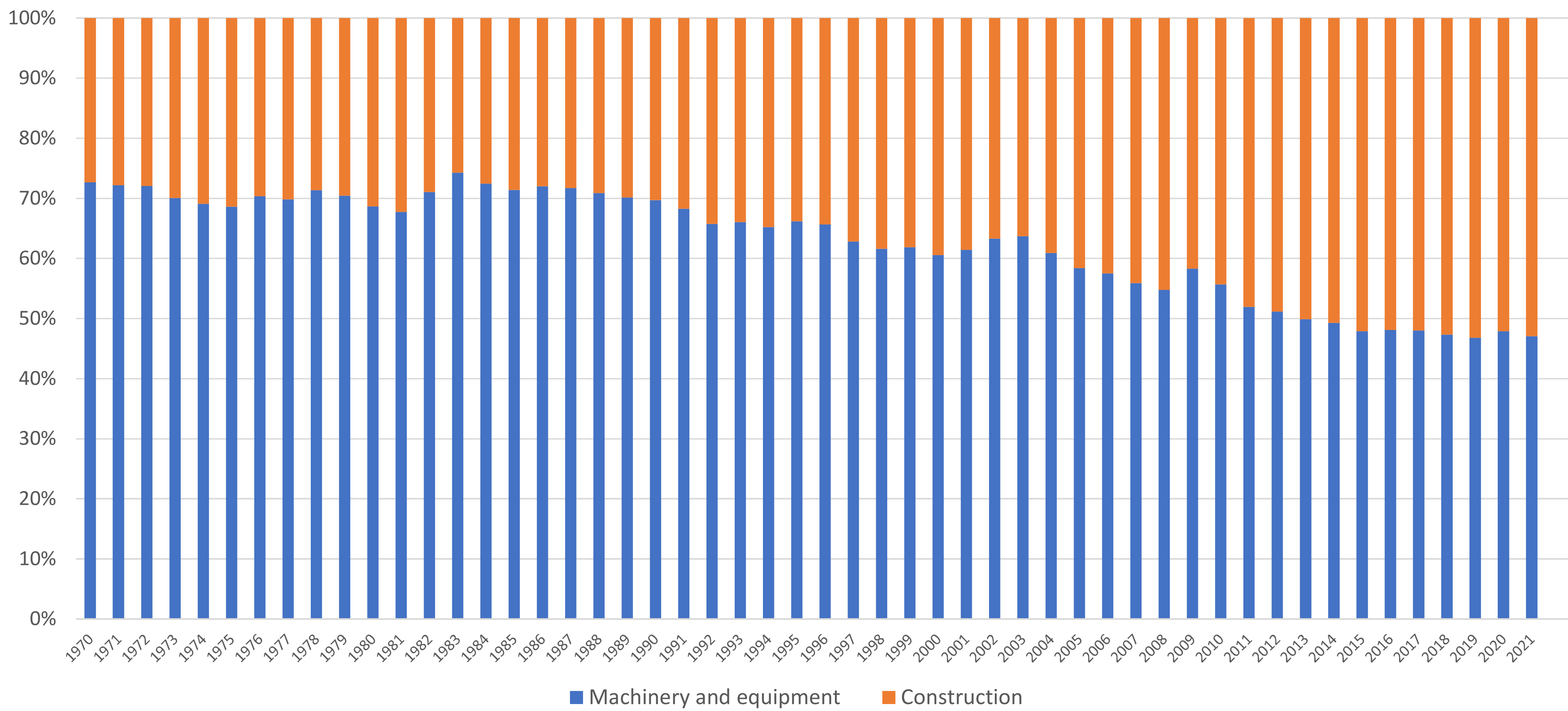
Meanwhile investment and productivity continue to drop over the last decade



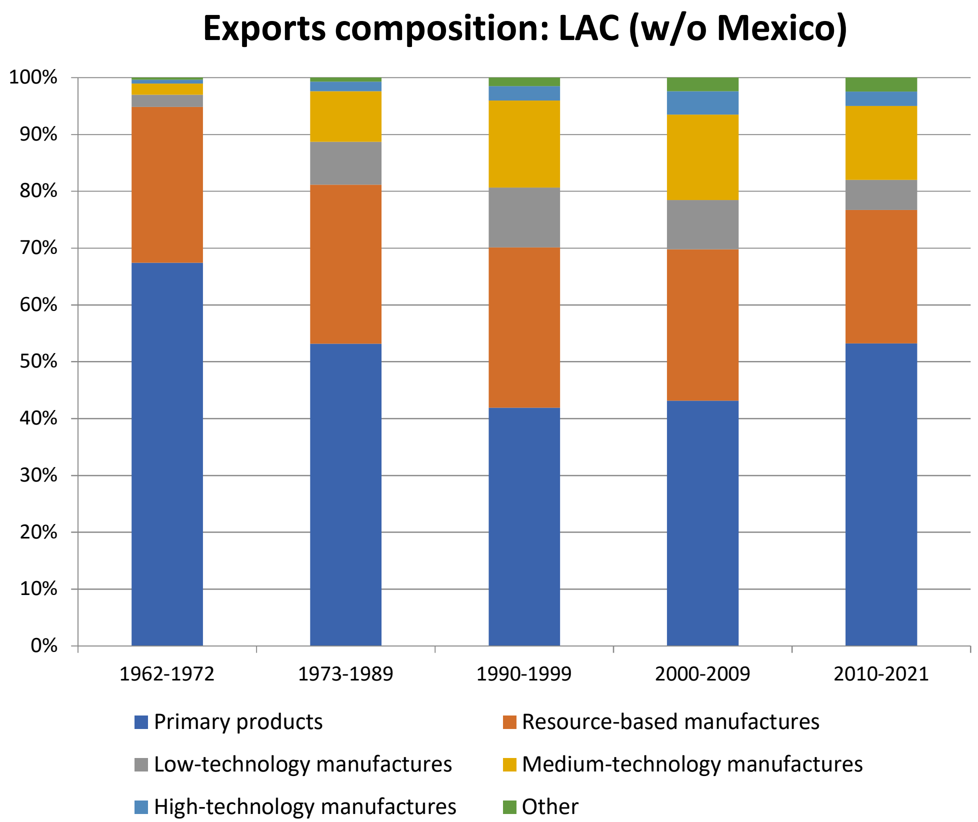
Public and private gross fixed capital formation as a percentage of GDP in Latin America, 1970-2021

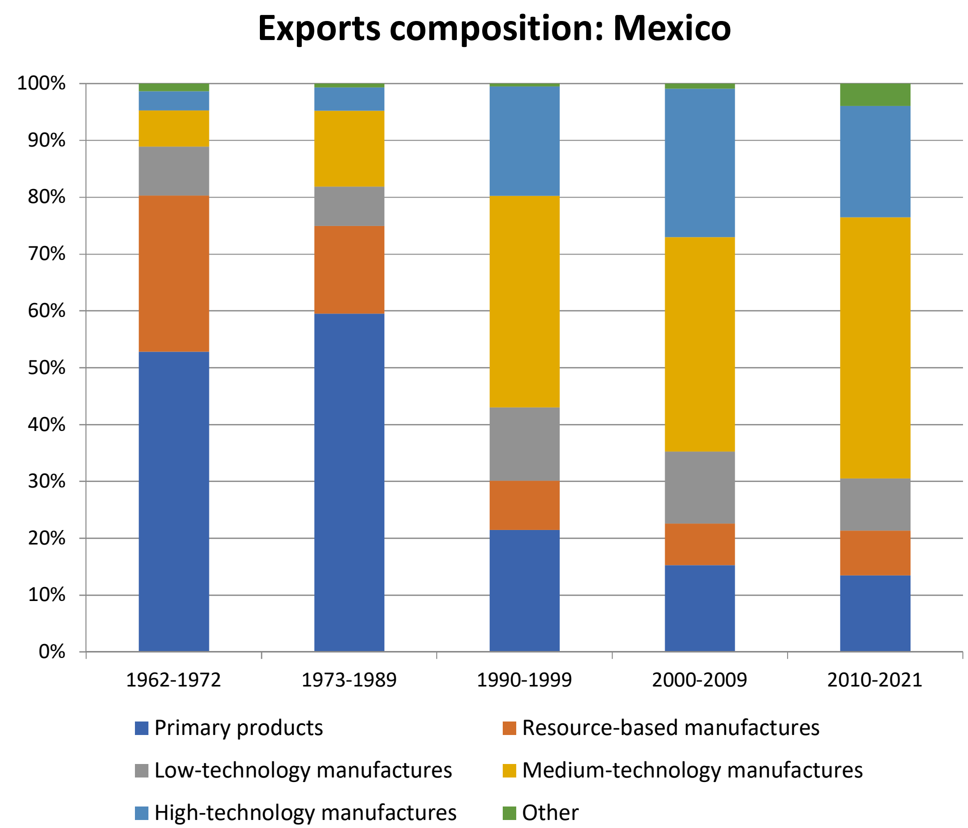


Public/private gross fixed capital formation construction and machinery/equipment % in total capital Latin America, 1970-2021



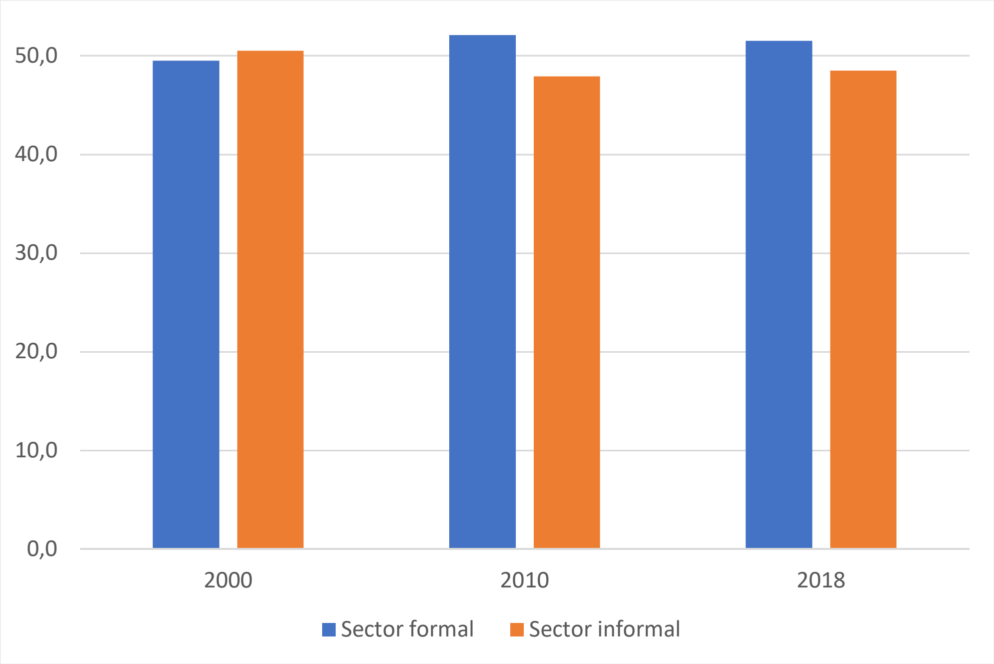
Exports are poorly diversified and Mexico accounts for the bulk of sophisticated activities



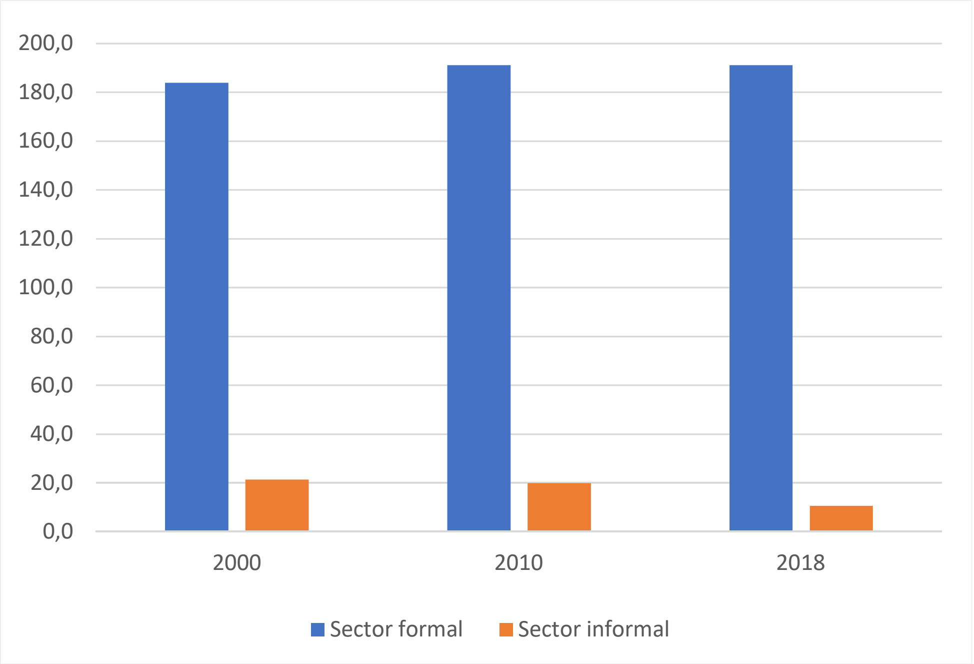


Employment and productivity informal and informal sectors in Latin America

Distribution of employment between the informal and formal sectors (% of workers)

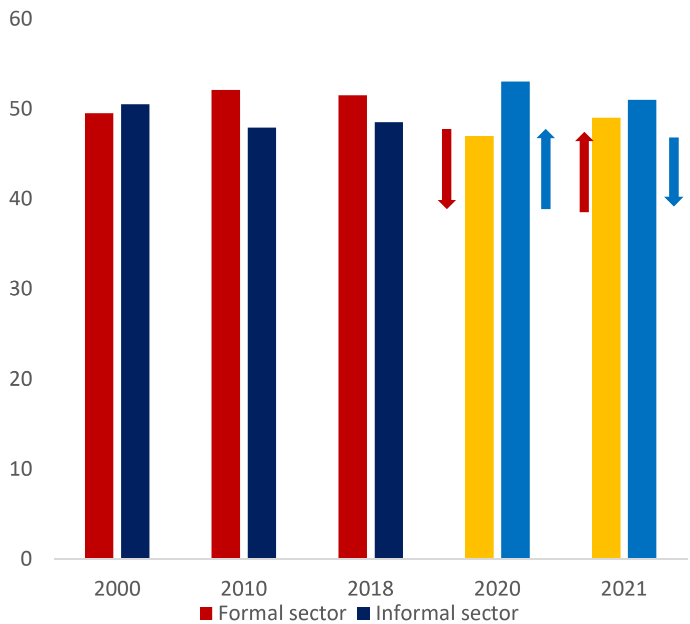


Labor productivity, informal and formal sectors (overall productivity=100)

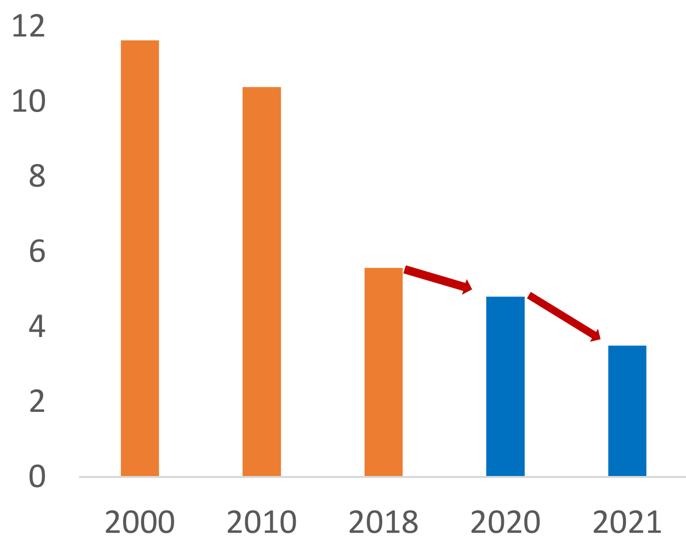


Informality: wage and productivity gaps

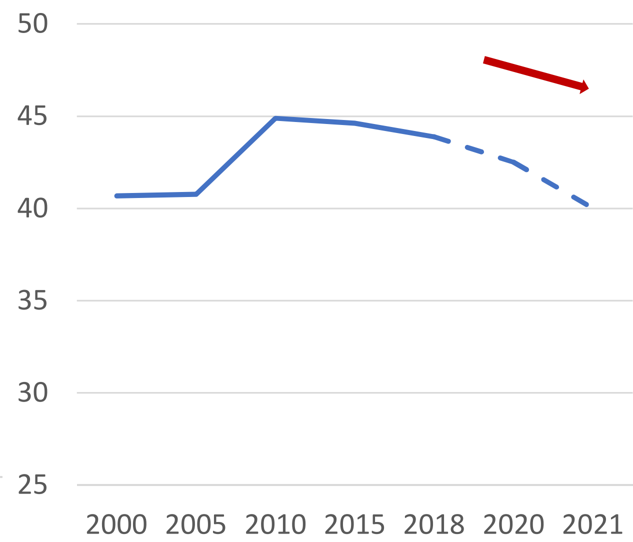
Distribution of employment between the formal and informal sectors
(*% of workers*)



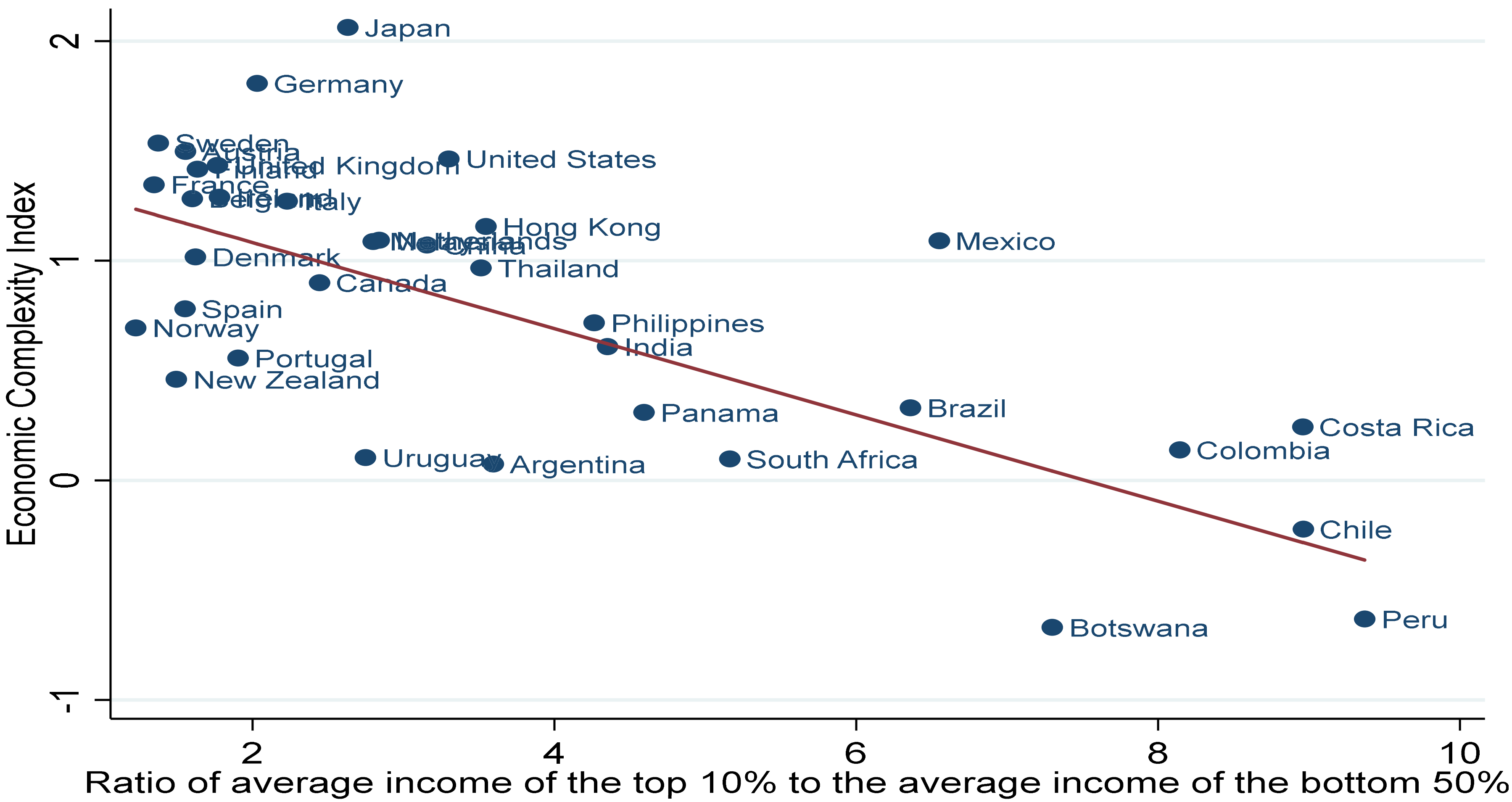
Productivity gap between the formal and informal sectors
(*Informal-sector productivity/formal-sector productivity*)

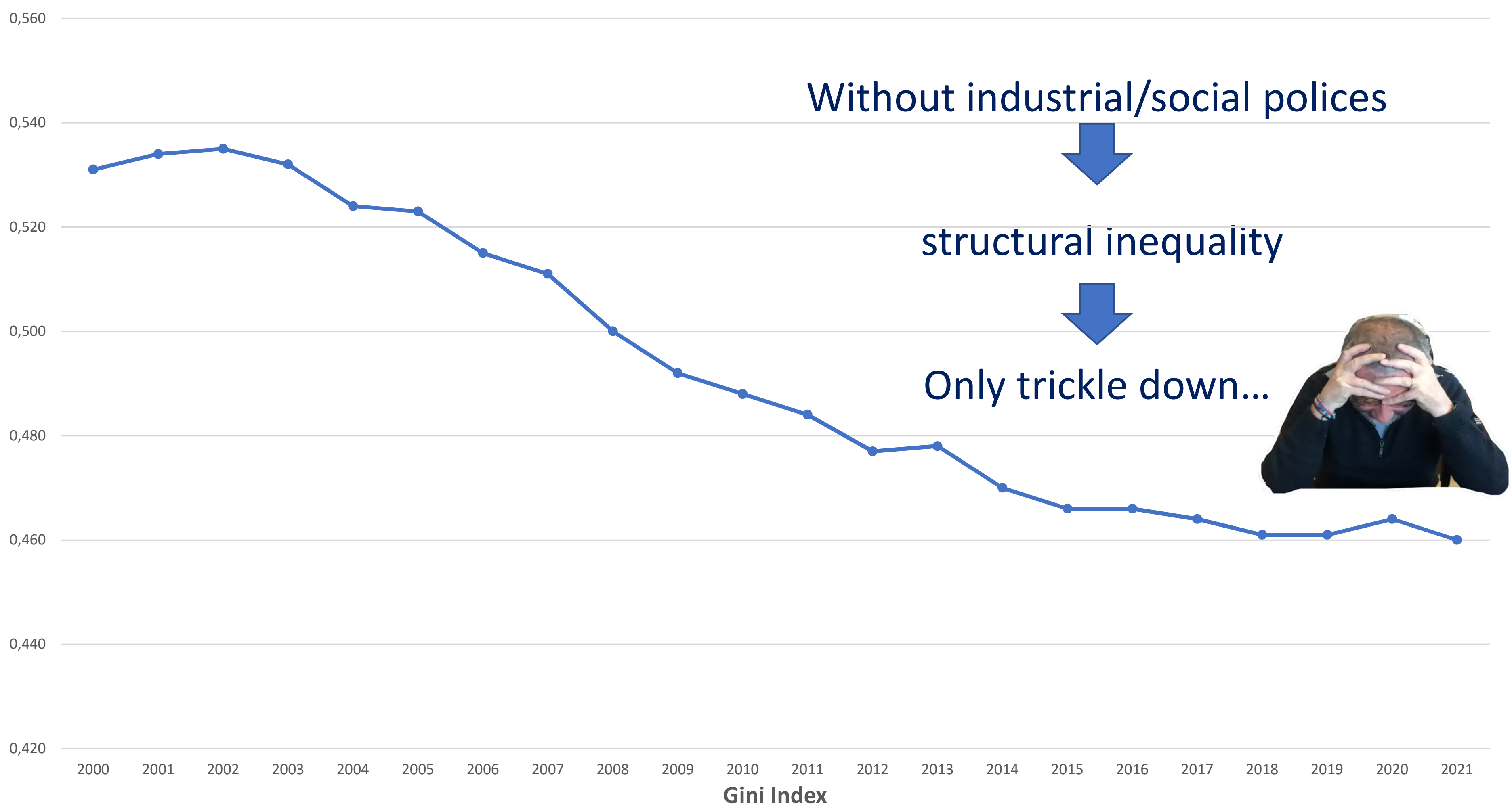


Wage gap between the formal and informal sectors
(*Informal-sector wage/formal-sector wage*)



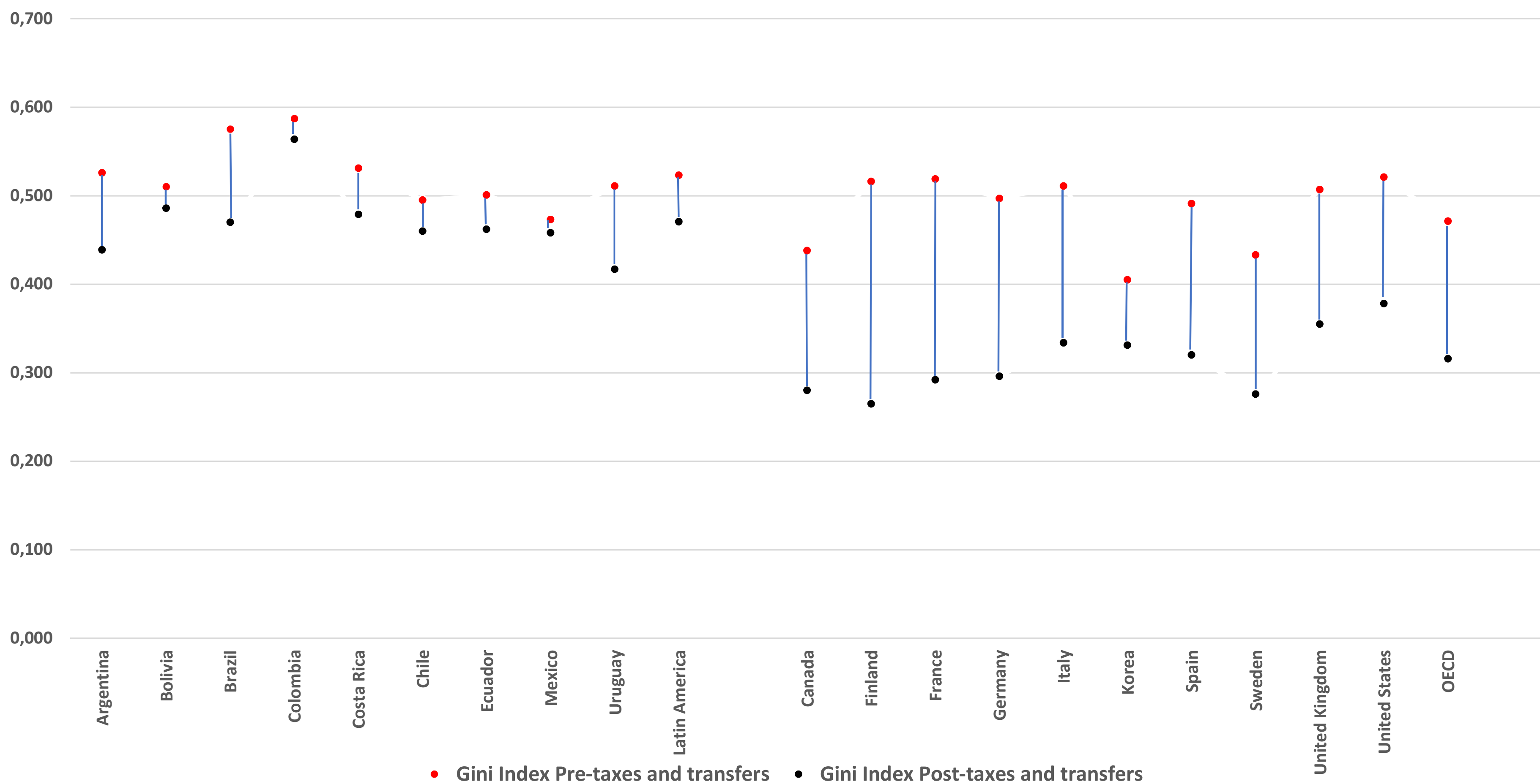
Production structure and income distribution: more complexity better distribution (2021)




Without industrial/social polices
structural inequality
Only trickle down…
0,560
0,540
0,520
0,500
0,480
0,460
0,440
0,420
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021
Gini Index

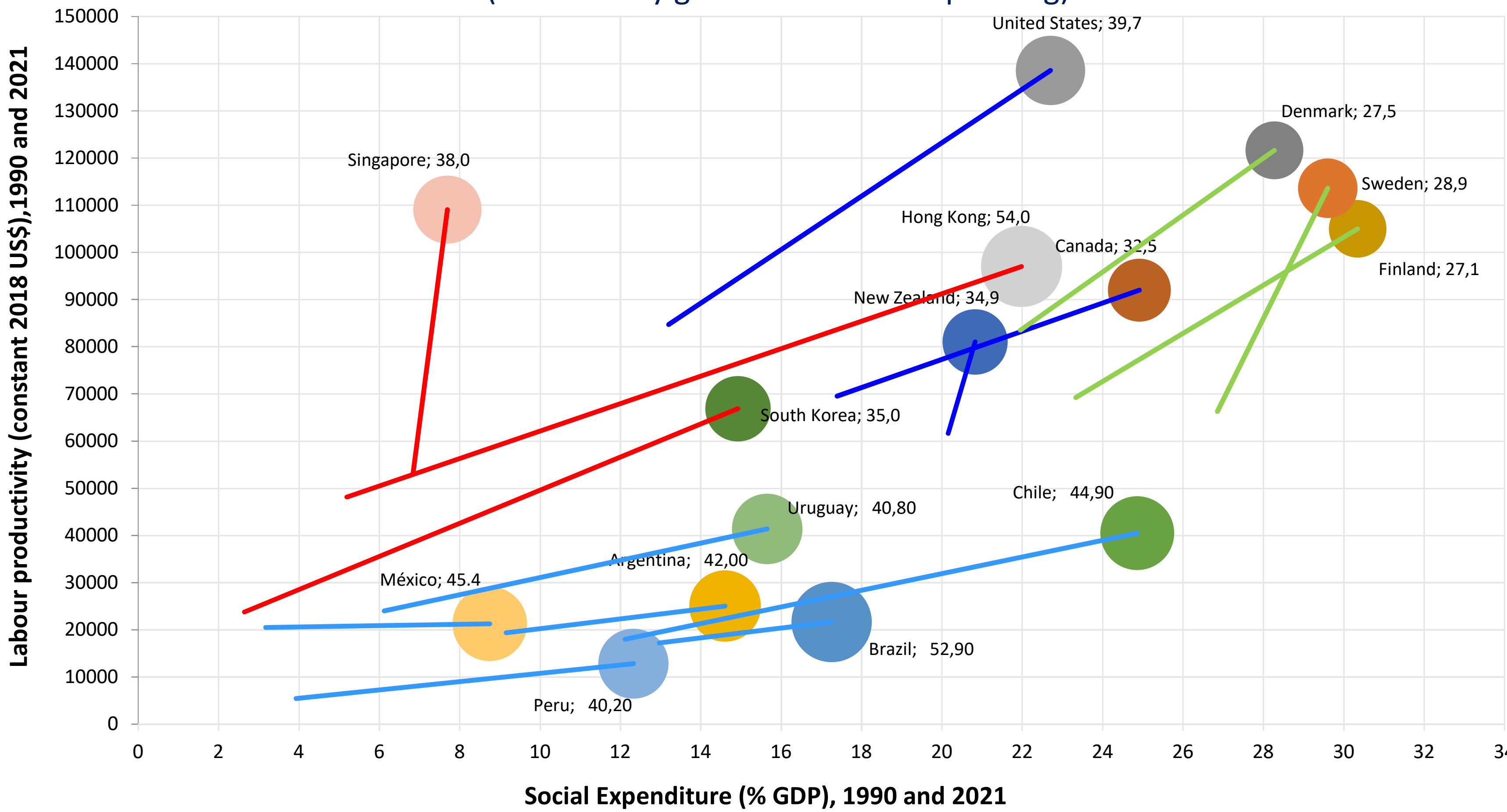
Poor efficacy/efficiency of public policies in LA

Gini coefficient pre/post taxes and transfers, 2020



Need for active/complementary industrial and social policies

(Productivity growth and social spending)



Main implication:
Inequalities outcome of uneven development models

Redistribution / Structural Change	Low	High
High	Unproductive Jobs No sectorial diversification Significant Inequalities (generated in the labour market) Lower levels of Poverty **Unproductive Social Policies**	Productive Jobs Sectorial diversification Decreasing Inequalities Lower levels of Poverty **Productive Social Policies**
Low	Unproductive Jobs No sectorial diversification High Inequalities High levels of Poverty Need of Corrective Social Policies and Structural Changes	Productive Jobs Sectorial diversification Decreasing Inequalities Lower levels of Poverty Need of redistribution policies (left behind)

Development view	**Orthodox (mainstream)**	**Moderate(mainstream)**	**Evolutionary/structuralist**
Micro (choice of technology)	Relative prices, static view, reversible, continuum space.	Plus, market failures	Learning, accumulation of capabilities, path dependency
Social structure and inequalities	Relative prices, preferences and choices	Plus, institutions and market failures	Consequence of uneven development models.
Industrial structure	Nonissue , sectoral homogeneity, capital labour composition ad choice	Imperfect competition and regulation	Sectoral (firm) heterogeneity, opportunity, contribution to productivity
Structural change	Static and market selection (natural rate of unemployment)	Around the comparative advantages	Engine of development (Unrelated/related activities, productivity /employment)
Industrial policy	“the best industrial policy [being] none al all”	Policy to correct market failures	Active , horizontal and selective (sector, firms and technologies)
Macro prices	Flexibility	Flexibility and control of extreme volatility	Competitive real exchange rate (and interest rate)
Macro & industrial development	Stochastic General equilibrium	Expansionary fiscal consolidation hypothesis	Keynesian /Schumpeterian world