

Globalization, economic growth, employment and poverty. The experiences of Chile and Mexico

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**Paper presented at the
Conference on Globalization and Employment: Global Shocks, Structural
Change and Policy Response.**

Organized by the: WB, ILO, ICTSD. Geneva June 21- 2010

1. Differences and similarities

- Earlier reformers. The war of attrition and the reforms.
- The pattern of liberalization: from liberal fundamentalism to realism

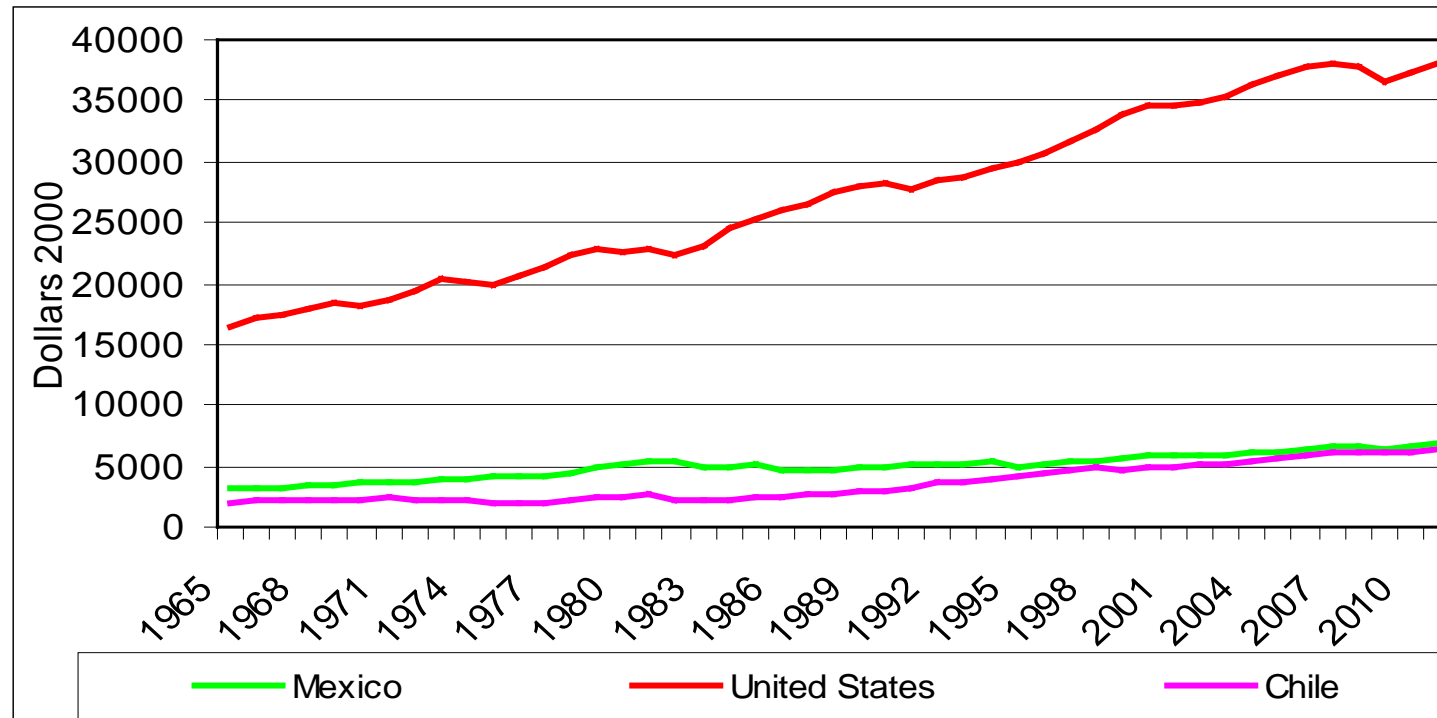
2. The long term growth path.

- The long growth pattern: 1900-2009.
- The fiscal discipline and the trajectory of investments per worker
- The impact of the global financial crisis
- employment, unemployment and salaries
- Poverty and inequality
- Labour productivity. The Dutch Disease.

3. Macro economic policies and the labour market:

- Demography and geography
- The real exchange rate. The control of flows of foreign capital
 - the scope of social policy and the impact of remittances
- the labour market adjustment characteristics

The trajectory of the Chilean and Mexican Per capita GDP 1965-2010. Constant 2000 dollars



Chile illustrates the path of a developing economy bridging the gap with developed Economies and Mexico. GDP while Chile performed far better. Chile converged to USA and outperformed Mexico. Mexican economy decelerated in 2007 and registered a -8.4 percent fall in per capita

What the lessons of long term economic growth are?

	Per capita GDP Annual Average Growth %				Per capita GDP AAG* in relation to USA AAG*			
	1900-45	1945-82	1982-08	1900-08	1900-45	1945-82	1982-08	1900-08
Argentina	1,18	1,32	1,52	1,42	0,45	1,13	0,79	0,69
Brasil	1,71	3,35	1,27	2,22	0,65	2,87	0,67	1,08
Chile	1,55	1,36	3,14	1,99	0,59	1,16	1,64	0,96
Colombia	1,55	2,81	1,71	2,05	0,59	2,40	0,90	1,00
México	1,11	2,98	0,68	1,72	0,42	2,55	0,35	0,83
Peru	2,48	2,15	0,90	2,02	0,94	1,83	0,47	0,98
Uruguay	1,58	1,36	1,75	1,68	0,60	1,16	0,92	0,82
Venezuela	4,61	2,21	0,49	2,70	1,75	1,89	0,26	1,31
T. L. A.	1,97	2,19	1,43	1,98	0,75	1,87	0,75	0,96
E. Unidos	2,63	1,17	1,91	2,06	1,00	1,00	1,00	1,00

In 1945-1982 Mexico, Brazil and Colombia registered the fastest economic expansion, while Chile marked its lowest growth.

1982-2008 was the best period for Chile and the worst for Mexico. Mexico converged with USA during 1945-82 and Chile in the post reform era.

That diverging path illustrates the much can differ the effects of economic liberalization according to countries specific characteristics and policies.

External Coefficient of GDP in Chile and Mexico.

1980-2009

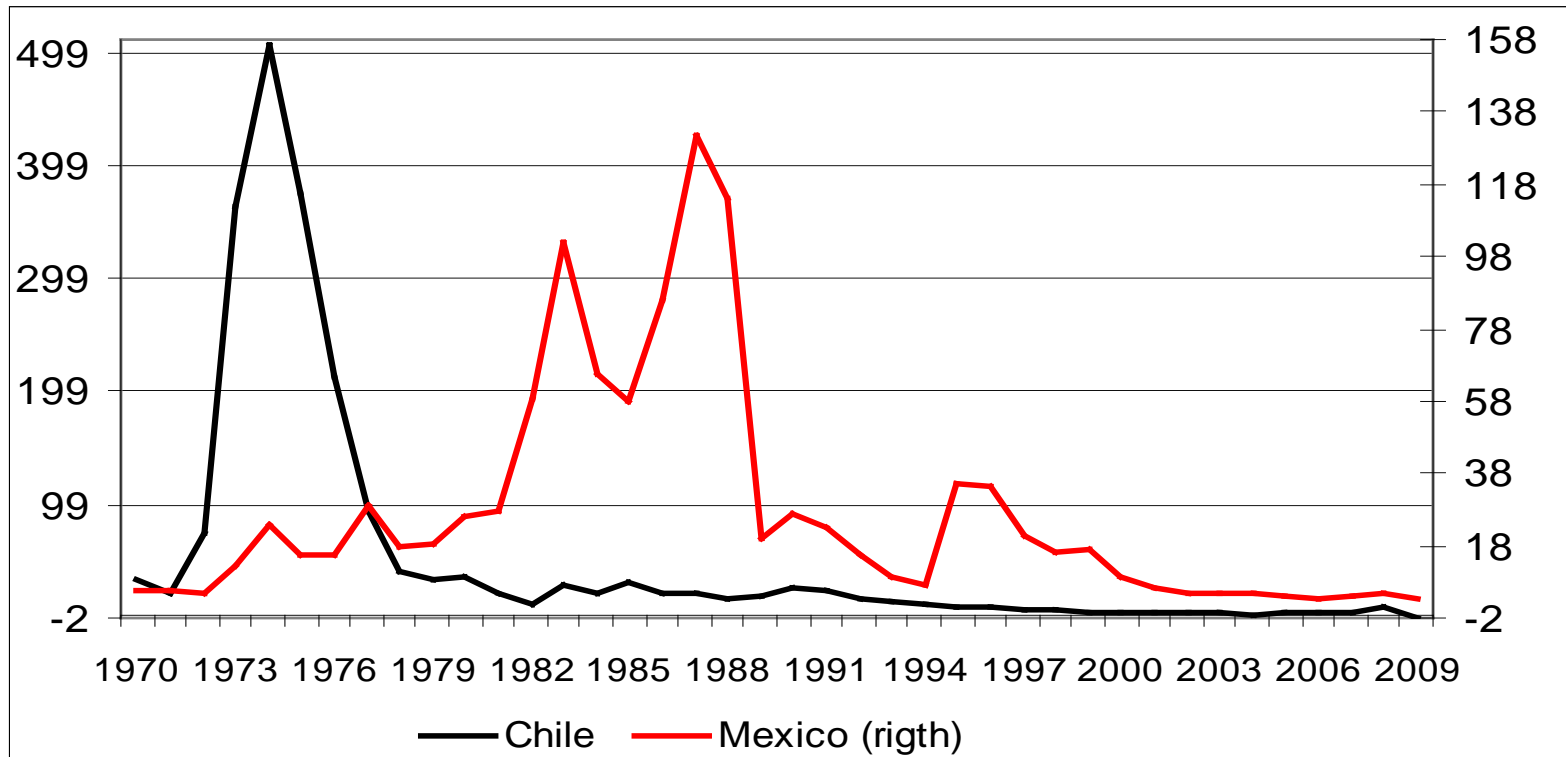
Year	Import		Export		Total		Balance	
	Chile	Mexico	Chile	Mexico	Chile	Mexico	Chile	Mexico
1960	15.7	11.6	13.5	8.5	29.2	20.1	-2.2	-3.2
1970	14.0	9.7	14.6	7.7	28.6	17.4	0.6	-1.9
1980	27.0	13.0	22.8	10.7	49.8	23.7	-4.2	-2.3
1990	30.6	19.7	34.0	18.6	64.5	38.3	3.4	-1.1
2000	29.7	32.9	31.6	30.9	61.3	63.9	1.9	-2.0
2008	40.7	30.5	53.7	28.3	94.4	58.8	13.0	-2.2
2009	29.3	36.6	43.0	23.7	72.3	60.3	13.7	-12.9

Mexico and Chile show high levels of exposure to international competence in national and international markets. The increasing Mexican trade deficit has induced A high GDP elasticity of imports (3.5%), suggesting the intensification of external Constraints to growth.

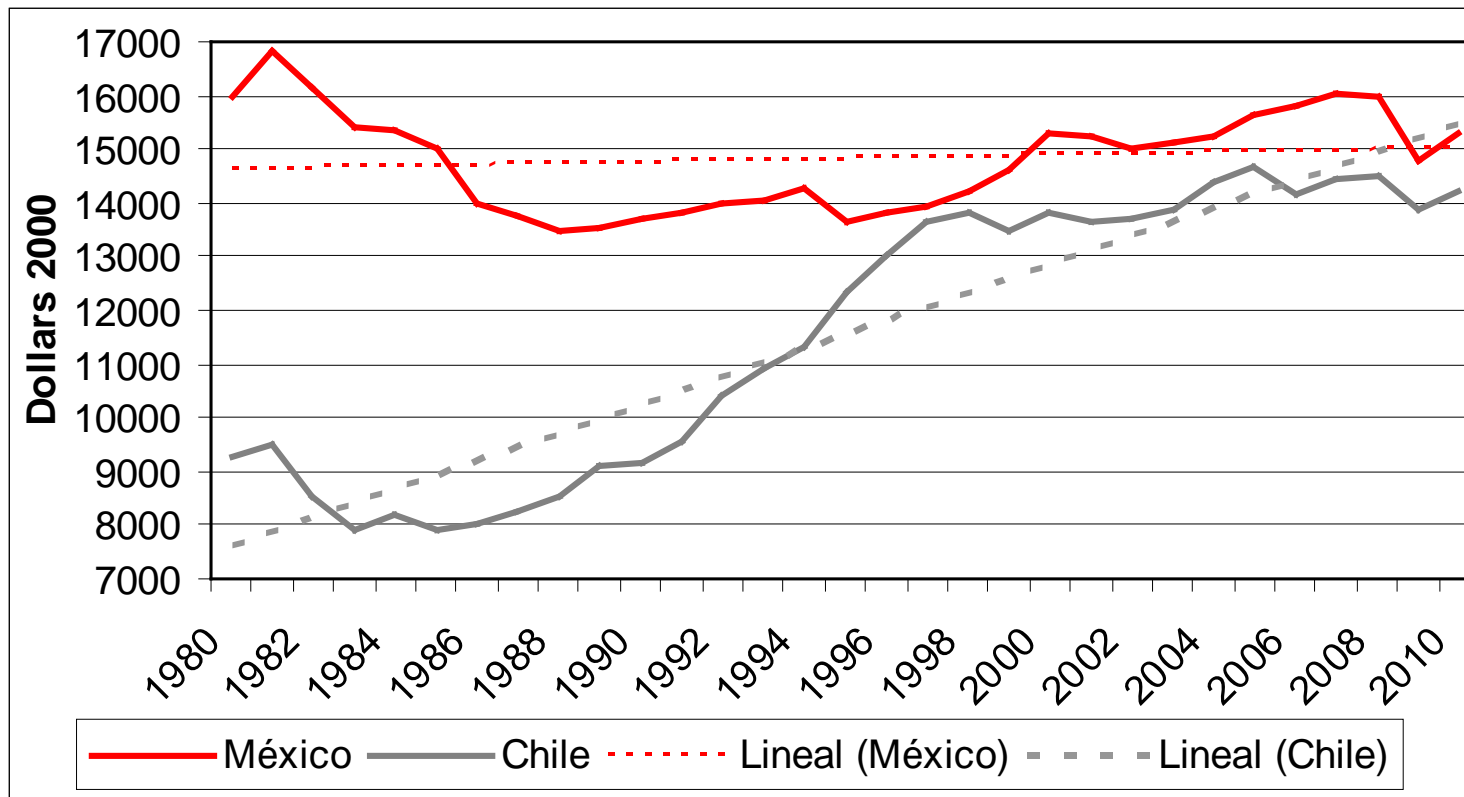
In 2008, manufactures represent 79.5 percent of Mexican external In 2006, 90 % of Chilean exports were primary products and resource based manufactures.

Mexican manufactures are ensemble products with very high imported content. Low Labour content and weak growth effects.

Controlling Inflation



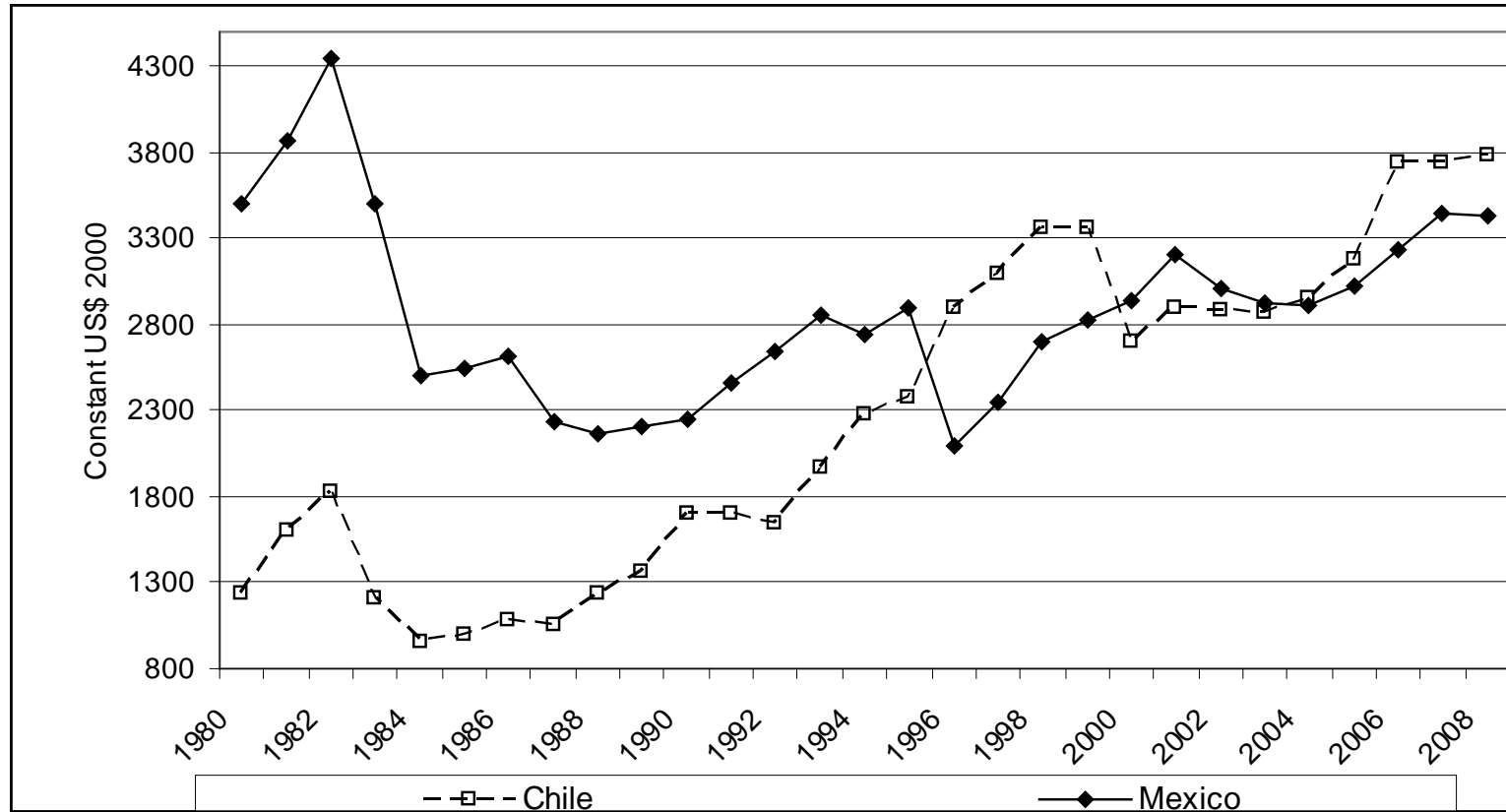
Labour Productivity 1980-2010



During 1960-2009, Chile increased productivity in tradable sectors at 329% while Mexico by 293. Mexican productivity in non tradable sectors fall by 36% and Chilean grew by 64%. This difference marks a contrasting trajectory of domestic demand in each Country and explains the fall in real labour incomes.

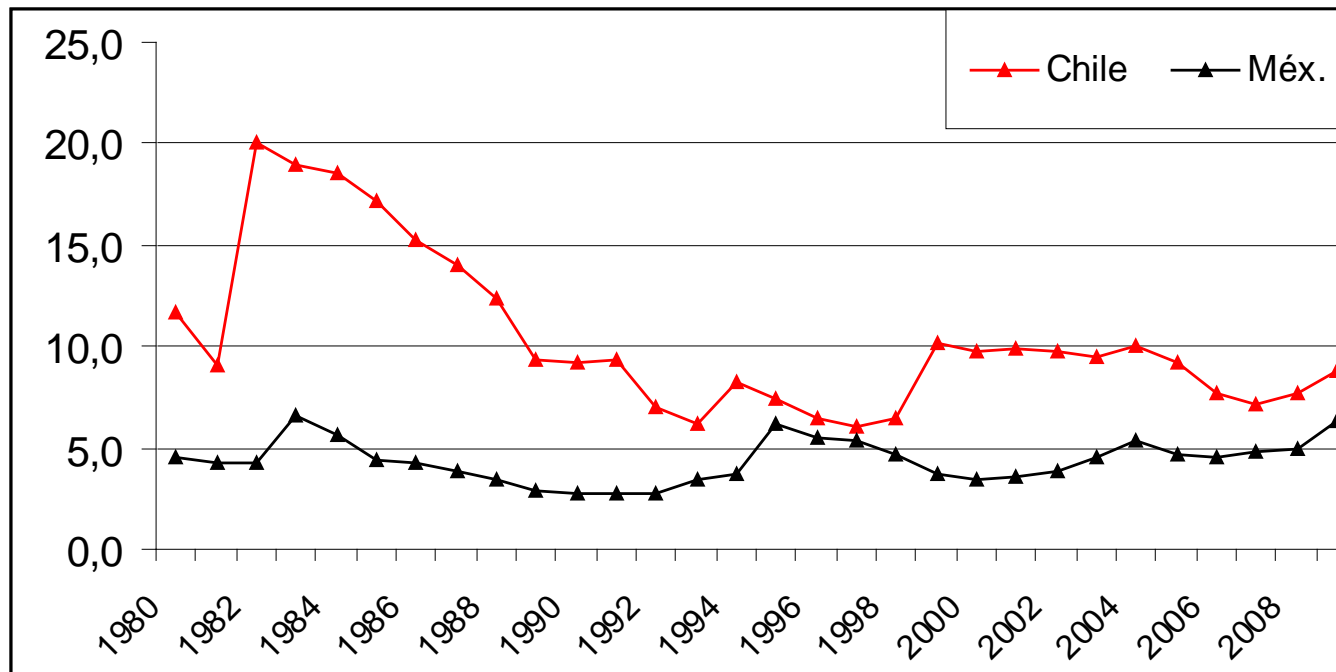
Gross Capital Formation /Worker. Constant 2000 Dollars.

1980-2008.



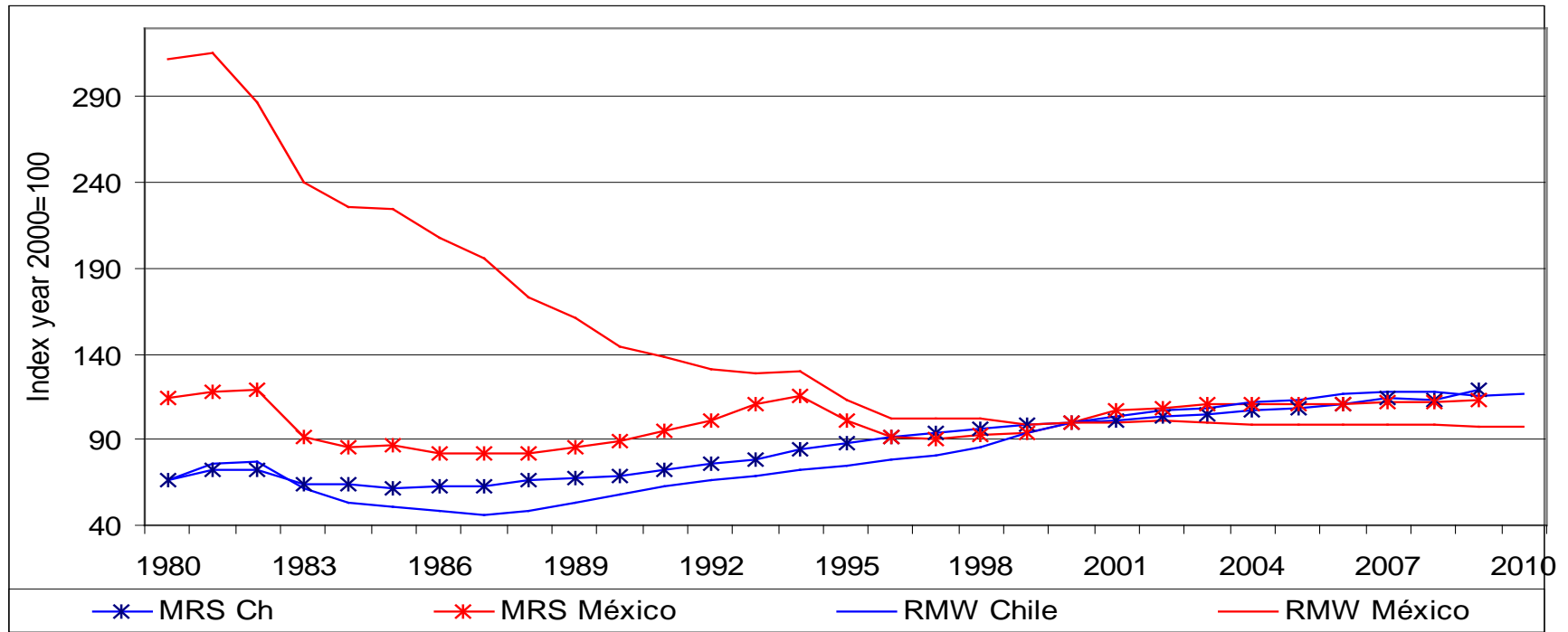
For both countries the most important variable behind growth is investments/W. It is the basis for productivity growth. By 2009 in Mexico it was below the level of 1981, while In Chile it was 2.9 times higher and higher than Mexico.

Unemployment in two liberalized economies



After of economic crisis of 1981 Chile experienced the most drastic increase in Unemployment. Reforms were introduced to control it. Salary indexation to inflation was eliminated, laws for the layoff of workers were liberalized and contributions to social security were reduced. In addition, the rules for enterprise bankruptcy and the opening of new economic units were relaxed and the banking system was deregulated. Mexico has not approved any reform, but the market is highly deregulated. In both The GDP elasticity of employment has fallen.

The evolution of workers remunerations



MRS= Medium Real Salaries. RMW= Real Minimum Wages.

Mexican labour market adjust to crisis by reducing wages and salaries while the Chilean increasing unemployment. Mexican labour incomes, mainly minimum wages deteriorated and Chilean improved but less than productivity. In both countries labour has Lost share of total national income.

Fighting Poverty

Chile							Mexico						
	Poverty a/			Extreme poverty				Poverty a/			Extreme poverty		
Año	Total	Urban	Rural	Total	Urban	Rural	Año	Total	Urban	Rural	Total	Urban	Rural
1970	17	12	25	6	3	11	1970	34	20	49	12	6	18
1990	38,6	38,5	38,8	13	12,5	15,6	1984	24	28	45	11	7	20
1994	27,6	27	31,1	7,6	7,1	9,9	1996	52,9	46,1	62,8	22	14,3	33
1998	21,7	20,7	27,5	5,6	5,1	8,6	2000	41,1	32,3	54,7	15,2	6,6	28,5
2000	20,2	19,7	23,7	5,6	5,1	8,4	2002	39,4	32,2	51,2	12,6	6,9	21,9
2003	18,7	18,5	20	4,7	4,4	6,2	2005	35,5	28,5	47,5	11,7	5,8	21,7
2006	13,7	13,9	12,3	3,2	3,2	3,5	2006	31,7	26,8	40,1	8,7	4,4	16,1
2008	-	-	-	-	-	-	2008	34,8	29,2	44,6	11,2	6,4	19,8

In Chile, during 1970-1990 the incidence of poverty and extreme poverty escalated to 38 and 13 per cent respectively. In Mexico, the increases in both poverty and indigence were more severe and by 1996, the incidence reached 53 and 22 per cent of population respectively.

High economic growth, allowed Chile to restore, between 2003 and 2006, the low level of poverty existing in 1970. Chile did reduce the incidence of poverty and indigence by close to 50% and Mexico by one third. In Mexico it has more to do With remittances than with growth. From 2000 to 2006 Mexico witnessed lessening of poverty that ended in 2006-2008, when total poverty enlarged by 4, 8%.

Effects of the Global Financial Crisis on GDP Growth, Employment and Labour Incomes

	MEXICO					CHILE				
	T. GDP	GDP Cap.	MRS	MRW	Unmplyt.	T. GDP	GDP Cap.	MRS	MRW	Unmplyt.
2000	6,6	5,1	6,0	0,7	3,4	4,5	3,2	1,4	7,1	9,7
2005	3,2	2,2	-0,3	-0,1	4,7	5,6	4,4	1,9	1,9	9,2
2006	4,8	3,7	0,4	0,0	4,6	4,6	3,7	1,9	2,5	7,8
2007	3,2	2,2	1,0	-0,7	4,8	4,7	3,7	2,8	1,8	7,1
2008	1,3	0,7	2,2	-2,1	4,9	3,2	2,2	-0,2	-0,1	7,8
2009	-6,7	-7,7	0,6	-1,0	6,8	-1,8	-2,8	4,8	-1,7	9,8

MRS= Medium Real Salaries. MRW= Minimum Real Wages

Sources: Own elaboration based on: CEPAL, 2009b. For MRW, Mexico: CNSM, 2009 and for Chile, for and CN

The crisis hit primarily the real sector of the economy. The impact on employment was severe and will last long time: **jobless growth?**

The severity of the crisis is related to the character of the external shocks that affected each economy and the particular characteristics of each economy: In Mexico the Dependence on the USA economy, the structure of exports (maquila), the fall of tourism, FI and remittances. Chile created an stabilization fund Mexico did not.

Policy Responses and conclusions

It is not easy to compare so different experiences and to signal the causes for diverging economic performances.

Both countries reduced inflation and unemployment and have liberalized the economy. Both have a myriad of RFTA with developed and developing countries.

Chile has a diversified trade structure, both geographically and in products while Mexico depends on one country and in maquila exports with little value added (60% of total exports and 2,6% of GDP).

Mexican agriculture competes with the USA and is the main casualty of the liberalization effort.

Chilean agriculture is complementary with its main markets: northern countries.

Chile established **control on capital flows** while Mexico refuses to do so. Mexico has control inflation basically by over-valuing the peso while Chile had a more competitive exchange rate

Policy Responses and conclusions

Chile implemented a **countercyclical fiscal** policy more intensive of about 3 percent of GDP while Mexico affected by fiscal crisis **controlled expenditure** prioritizing anti-inflation policy.

Credit crunch affected internal demand and the deceleration of foreign direct and portfolio investments aggravated the impact of the contraction of exports revenue.

Both countries **devalued their currencies**. The positive effect of devaluation on exports may not appear since external demand will remain feeble for quite some time. Chilean exports **have lower price and product elasticity** than Mexican

Policy Responses and conclusions

Productivity is at the core of the differences in the pattern of economic growth of the two countries studied in the present work.

Chile did manage to increase total and sectoral productivity and outperformed Mexico.

The causes of the diverging paths of productivity are manifold: reforms introduced in the Chilean **banking system** early in the XX Century, **educational levels**, and more intensive investments, both as percentage of GDP and per worker.

Policy Responses and conclusions

- In Chile, **economic growth supported the reduction of poverty** by improving salaries and providing the fiscal resources to finance targeted and conditioned poverty programmes.
- In Mexico, the reduction of poverty has more to do with factors not directly related to the pattern of growth: **remittances, the poverty conditioned social programmes and the intensive reduction of the rates of population growth.**
- Fiscal policies implemented in Mexico, result not of a social pact to reduce poverty and inequality through progressive taxation and progressive fiscal expenditure as in Chile.
- The enormous **Mexican fiscal oil rent financed social programmes**, which are marginal in the structure of total public expenditure.
- **Chile instrumented a stabilization fund** out of the copper windfall to finance social expenditure and prevent economic stagnation, which help to explain Chilean better economic performance in 2009.

AND

MANY

THANKS

FOR YOUR

ATTENTION AND PATIENCE