

Who Gains from Free Trade?

Export-led growth, inequality and poverty in Latin America

Edited by

Rob Vos

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Preface

For almost a decade, the United Nations Development Program (UNDP) and the Economic Commission for Latin America and the Caribbean of the United Nations (UN-ECLAC) have coordinated a number of comparative studies on the macroeconomic performance, poverty and inequality in Latin America and the Caribbean. Poverty reduction is high on the international development agenda, but still we know relatively little about what determines poverty in the region and how economic reform policies impact on human well-being and income distribution. One thing is clear though, namely, that the effectiveness of particular types of policies may vary greatly from country to country. In this vein, UNDP and UN-ECLAC have joined forces once more to study the impact of economic policies on poverty and inequality through a comparative analysis of a large number of countries from the region.

A common starting point is that across the region exports have become the engine of growth following a decade of so-called structural adjustment policies in the 1980s and even more drastic policy reforms during the 1990s. During the 1980s the countries used mainly macroeconomic instruments to steer the economy towards better export performance, such as through exchange rate policies and fiscal adjustment. From the late 1980s onwards, most countries engaged in deeper, microeconomic reforms, including rapid and drastic trade liberalization, financial liberalization, capital account opening, privatizations, labour market deregulation and tax reforms, among other things. The expectation that this would yield higher, more stable and sustainable growth has not been met, however. Growth has indeed become more reliant on exports and thus on world markets, but it has remained highly volatile. Also, the expected beneficial impact on poverty reduction has not been very visible (or not at all) in most countries of the region. The trends are not uniform though in all countries of the region, even though on the face of it they all implemented similar reforms with similar timing.

So why, unlike what seems to have occurred in East Asia, has export-led growth promoted through trade liberalization not provided the expected welfare and poverty reduction gains for Latin America? Why do outcomes vary so much across country experiences? To find answers to these questions, UNDP and UN-ECLAC joined forces with two prestigious international research institutions, the International Food Policy Research Institute (IFPRI) in Washington, DC, and

the Institute of Social Studies (ISS) in The Hague. The present study provides some answers, specifically as to the impact of trade liberalization and other export promotion policies on growth, employment, inequality and poverty in 16 countries of the region during the 1990s. On the basis of country comparative analysis, the study yields both lessons for the region at large and specific policy recommendations for the various country cases.

In order to obtain answers as close as possible to country realities, the project conducted the investigation in collaboration with teams of local experts. Combining country expert knowledge with a common, rigorous modelling methodology to isolate the effects of policy reforms on poverty has been the approach to ensure a high degree of realism in the analysis and maximum comparability. Without the input of the country experts, many appearing as chapter authors in this volume, this undertaking would not have been possible. The investigation took place over a period of two years, during which four workshops were held at which the research methodology was agreed and refined and intermediate results were discussed and compared. UNDP country offices in Nicaragua, Dominican Republic and Argentina offered invaluable support in making these events happen.

The editors of this volume received invaluable research support and backstopping in the application of the general equilibrium models in each of the countries from Valeria Piñeiro, Research Fellow at IFPRI. Niek de Jong of ISS gave important inputs into the methodology and application of the microsimulation method in several countries. Francisco Ferreira of the World Bank participated in the final project meeting in Buenos Aires and gave very useful comments and suggestions for the interpretation of the findings of the study. Edgar Pardo, New School for Social Research, New York, gave valuable research assistance in the analysis of Chapter 3 and Sandra van Ginhoven and Leandro Serino (at ISS) did the same for the core statistical data comprised in Chapter 2.

Kathy Ogle translated half of the chapters from the original Spanish to English and Admasu Shiferaw of ISS provided helpful assistance in the final editing of the English manuscript. The Ford Foundation generously financed various workshops. Manuel Montes from the New York office of the Ford Foundation accompanied the research team throughout this project.

The authors are most grateful to the hosting agencies, UNDP, UN-ECLAC, IFPRI and ISS. They provided all the institutional support required, while leaving all the intellectual freedom needed to conduct this research on issues so central to the well-being of the populations in the countries of the region, but which are also controversial. It goes without saying that the opinions expressed in this volume are exclusively those of the authors.

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New York, Washington, Sussex and The Hague,
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Contents

<i>List of tables and figures</i>	xii
<i>About the authors</i>	xviii
<i>Preface</i>	xx
1 Introduction	1
Rising exports, slower growth and greater inequality: is trade liberalization to blame?	
ROB VOS, ENRIQUE GANUZA AND SAMUEL MORLEY	
1.1 Reforms and dismal growth	1
1.2 The analytical approach of this study	2
1.3 Overview of the main findings	4
Notes	6
References	6
2 Bad luck or wrong policies?	8
External shocks, domestic adjustment and growth slowdown in Latin America and the Caribbean	
SAMUEL MORLEY AND ROB VOS	
2.1 Introduction	8
2.2 Bad luck? External shocks during the 1990s	13
2.3 Failed adjustment or policies? The nature of domestic adjustment	23
2.4 Conclusions	28
Appendix A2:	
A2.1 A methodology for estimating external shocks and domestic response	29
A2.2 Decomposition of changes in current account deficit	33
A2.3 Average current account balance	45

A2.4 Macroeconomic decomposition of economic growth 46

A2.5 Sectoral growth decomposition 51

Notes 51

References 54

**3 Are export promotion and trade liberalization good
for Latin America's poor? 55**

A comparative macro–micro CGE analysis

ENRIQUE GANUZA, SAMUEL MORLEY, SHERMAN ROBINSON,

VALERIA PIÑEIRO AND ROB VOS

3.1 Macro–micro modelling of trade reforms 55

3.2 CGE model strategy 56

*3.3 Macro CGE simulations: counterfactual analysis of effects of
trade reforms and external shocks 66*

3.4 The impact of policy simulations on poverty and inequality 91

3.5 Conclusions 96

Appendix A3 98

Notes 121

References 122

**4 Argentina – the convertibility plan, trade openness,
poverty and inequality 125**

CAROLINA DÍAZ-BONILLA, EUGENIO DÍAZ-BONILLA,

VALERIA PIÑEIRO AND SHERMAN ROBINSON

Abstract 125

4.1 Introduction 126

*4.2 General policy framework and economic
performance 127*

4.3 Current account and trade performances 130

4.4 Structure of the CGE model and simulation results 132

4.5 Microsimulations: methodology and results 139

4.6 Conclusions and issues for further research 146

Notes 147

References 148

**5 Bolivia – export promotion and its effects on growth,
employment and poverty 150**

WILSON JIMÉNEZ

Abstract 150

5.1 Introduction 151

5.2 Macroeconomic policies and export promotion 152

5.3	<i>The labour market and income inequality</i>	162
5.4	<i>Effect of exports on employment and wages</i>	164
5.5	<i>Conclusions and policy implications</i>	175
	<i>Appendix A5</i>	178
	<i>Notes</i>	180
	<i>References</i>	182
6	Brazil – the impact of trade openness on employment, poverty and inequality	184
	FRANCISCO GALRÃO CARNEIRO AND JORGE SABA ARBACHE	
	<i>Abstract</i>	184
6.1	<i>Introduction</i>	184
6.2	<i>Macroeconomic background and structural reforms</i>	185
6.3	<i>Sector and export growth</i>	188
6.4	<i>Counterfactual CGE model simulations</i>	192
6.5	<i>Microsimulations of the impact of trade on poverty and inequality</i>	199
6.6	<i>Conclusions</i>	201
	<i>Notes</i>	202
	<i>References</i>	203
7	Costa Rica – export orientation and its effect on growth, inequality and poverty	204
	MARCO V. SÁNCHEZ C. AND PABLO SAUMA	
	<i>Abstract</i>	204
7.1	<i>Introduction</i>	205
7.2	<i>Reforms and macroeconomic performance</i>	205
7.3	<i>Trends in employment, inequality and poverty</i>	211
7.4	<i>Exports, employment, inequality and poverty: a counterfactual analysis</i>	214
7.5	<i>Conclusions</i>	223
	<i>Appendix A7</i>	225
	<i>Notes</i>	228
	<i>References</i>	229
8	Cuba – export promotion, poverty, inequality and growth in the 1990s	231
	ANGELA FERRIOL, XUAN HOANG, ALFREDO GONZÁLEZ AND ALINA HERNÁNDEZ	
	<i>Abstract</i>	231
8.1	<i>Introduction</i>	232

x **Contents**

8.2	<i>Economic reforms: peculiarities of the Cuban case</i>	232
8.3	<i>Macroeconomic performance</i>	235
8.4	<i>Exports</i>	237
8.5	<i>Productivity and employment</i>	238
8.6	<i>Inequality and poverty</i>	241
8.7	<i>Counterfactual analysis</i>	242
8.8	<i>Impacts of simulated policies on inequality and poverty</i>	251
8.9	<i>Conclusions</i>	253
	<i>Appendix A8</i>	255
	<i>Notes</i>	268
	<i>References</i>	268

9 Ecuador – dollarization, trade liberalization and poverty 270

ROB VOS AND MAURICIO LEÓN

	<i>Abstract</i>	270
9.1	<i>Introduction</i>	271
9.2	<i>Macroeconomic performance and external shocks</i>	272
9.3	<i>Trade liberalization, macroeconomic policies and export promotion</i>	276
9.4	<i>Labour market adjustment and poverty during the 1990s</i>	281
9.5	<i>A SAM and CGE model for Ecuador</i>	284
9.6	<i>Microsimulation methodology</i>	286
9.7	<i>CGE macro–microsimulations: effects of trade liberalization and external shocks on employment and factor incomes</i>	287
9.8	<i>Concluding remarks</i>	297
	<i>Appendix A9</i>	298
	<i>Notes</i>	299
	<i>References</i>	300

10 Mexico – do the poor benefit from increased openness? 302

SAMUEL A. MORLEY AND CAROLINA DÍAZ-BONILLA

	<i>Abstract</i>	302
10.1	<i>Introduction</i>	303
10.2	<i>Macroeconomic overview: 1980–99</i>	303
10.3	<i>Opening the Mexican economy</i>	307
10.4	<i>A decomposition analysis of the sources of growth since 1980</i>	308
10.5	<i>A CGE model for Mexico</i>	313
10.6	<i>Policy experiments and simulation results</i>	315
10.7	<i>The impact of export-led growth on poverty and distribution: the microsimulations</i>	321
10.8	<i>Conclusion</i>	326

Notes 327

References 327

11 Peru – impact analysis of trade liberalization on poverty and inequality 329

ALONSO SEGURA VASI AND JUAN GARCÍA CARPIO

Abstract 329

11.1 Introduction 330

11.2 Evolution of the economy in the 1990s 330

11.3 CGE analysis of the impact of trade liberalization and shocks 337

11.4 Impact of external shocks and trade reform on poverty and inequality 349

11.5 Concluding remarks 356

Notes 358

References 360

12 Uruguay – export growth, poverty and income distribution 361

SILVIA LAENS AND MARCELO PERERA

Abstract 361

12.1 Introduction 362

12.2 Macroeconomic performance and economic reforms 362

12.3 Sector and export growth 367

12.4 Counterfactual CGE model simulations 372

12.5 Impact on poverty and inequality at the household level 383

12.6 Conclusions 387

Appendix A12 390

Notes 391

References 391

Index 393

List of tables and figures

Tables

2.1	Latin America: growth, volatility and recession	9
2.2	Latin America and the Caribbean: changing export structures in the 1990s	15
2.3	Latin America and Caribbean: sources of changes in the current account deficit (weighted period averages, changes with respect to the preceding 5-year period as percentage of GNP)	17
2.4	Classification of countries by major shocks and domestic adjustment shifts ($> 2 $ per cent of GNP)	18
2.5	Frequency of sizeable shocks and domestic adjustment shifts per period: number of countries (out of 17)	21
2.6	Latin America: demand side sources of growth	25
3.1	CGE simulations – standardized closures: macroeconomic indicators (real values and percentage change from base)	69
3.2	CGE simulations – standardized closures: macroeconomic indicators (real values and percentage change from base)	74
3.3	CGE simulations – standardized closure rules: changes in skill intensity of urban and rural labour	85
3.4	CGE macro–micro simulations – country-specific closures (changes represent deviations from base)	86
3.5	Poverty in Latin America	92
4.1	Argentina: main economic indicators, 1970–2001	126
4.2	Growth indicators for Argentina, 1961–2000	128
4.3	Argentina: real wages	129
4.4	Argentina: decomposition of current account deficit (per cent GNP)	131
4.5	Argentina: external debt, public and private, and FDI	132
4.6	Argentina: relative growth of exports (index base 1991 = 1)	132
4.7	Argentina – CGE policy simulations: macroeconomic outcomes	135
4.8	Argentina – CGE policy simulations: employment and wages	136

4.9	Argentina – microsimulations: poverty calculations from household survey data (per cent change from base level)	142
4.10	Argentina – microsimulations: income inequality calculations from household survey data (per cent change from base level)	143
5.1	Bolivia: contribution of the external sector, government, and private sector to GDP growth, 1985–2001 (percentage)	154
5.2	Bolivia: current account of the balance of payments (percentage of GDP)	155
5.3	Bolivia: decomposition of changes in the current account deficit (percentage of GDP)	156
5.4	Bolivia: Chenery decomposition – changes in value added by products, 1989–96 (percentage)	158
5.5	Bolivia: export structure by product (percentage)	159
5.6	Bolivia: urban labour market indicators, 1989–2000 (percentage)	163
5.7	Bolivia: urban labour market indicators	163
5.8	Bolivia: poverty and inequality of per capita family income	164
5.9	Bolivia: results of simulations with and without external shocks	168
5.10	Bolivia: microsimulations with and without internal and external shocks (percentage variations with respect to base)	171
5.11	Bolivia: results of simulations with and without trade policies	173
5.12	Bolivia: microsimulations with and without trade policies (percentage change from base)	176
6.1	Brazil: decomposition of changes in current account deficit (percentage of GNP; period averages)	187
6.2	Brazil: GDP growth decomposition by components of the aggregate demand, 1980–98 (per cent changes based on constant price values in R\$ billion)	189
6.3	Brazil: GDP growth decomposition – selected periods	190
6.4	Brazil: CGE simulations (per cent change from base year in macroeconomic variables per simulation)	197
6.5	Brazil: counterfactual microsimulations of the effects of greater openness on poverty and inequality	200
7.1	Costa Rica: decomposition of variations in the current account deficit (percentage points of GDP)	211
7.2	Costa Rica: contribution to GDP growth by aggregate demand component; period averages 1985–91, 1992–7, 1998–9 and 2000–1 (percentage points)	213
7.3	Costa Rica: main simulation results (percentage deviation with respect to base-year value)	218
8.1	Cuba: decomposition of GDP Growth 1989–99	235
8.2	Cuba: net capital inflows (in millions of dollars)	236

xiv *List of tables and figures*

8.3	Cuba: decomposition of the current account	237
8.4	Cuba: changes in rates of economic participation, employment and unemployment (per cent)	239
8.5	Cuba: contribution of skill level to employment rate (changes)	240
8.6	Cuba: contributions to changes in employment rate by enterprise ownership	240
8.7	Cuba: productivity growth (per cent change per year)	241
8.8	Cuba: simulations with greatest impact	250
8.9	Cuba: impact on poverty and inequality (points of deviation from 1999 base)	252
9.1	Ecuador: macroeconomic volatility indicators, 1965–2001	273
9.2	Ecuador: decomposition of external shocks and domestic adjustment, 1965–99 (per cent point changes of GDP)	275
9.3	Ecuador: decomposition of GDP growth, 1980–2001 (contribution to compound annual GDP growth)	277
9.4	Ecuador: tariff reform and structure, 1986–2001	279
9.5	Ecuador: skill intensity of labour demand, 1990–9	281
9.6	Ecuador CGE: trade policy scenarios (simulation results represent deviations in percentage from the baseline)	288
9.7	Ecuador: microsimulation results of CGE simulations – impact of trade liberalization on poverty and inequality (per cent changes from observed values in 1995)	291
9.8	Ecuador CGE: external shocks and other policy scenarios (simulation results represent deviations in percentage from the baseline)	293
9.9	Ecuador: microsimulation results of CGE simulations – impact of trade liberalization on poverty and inequality (per cent changes from observed values in 1995)	295
10.1	Contributions to growth in Mexico	310
10.2	Mexico: CGE model simulations – results for total and sectoral GDP	317
10.3	Mexico: CGE model simulations – changes in foreign sector	318
10.4	Mexico: CGE model simulations – changes in wage differentials	319
10.5	Mexico: macro–microsimulation results – effects on poverty	324
10.6	Mexico: macro–microsimulation results – effects on inequality	325
11.1	Peru: main economic indicators, 1980–2000	331
11.2	Peru's tariff reform process, 1990–2000	332
11.3	Peru: decomposition of the change in current account due to external shocks	334
11.4	Peru: decomposition of GDP changes, 1991–2000 (in new 1994 soles)	335

11.5	Peru: change in employment by type of activity, 1985–2000	337
11.6	Peru: change in labour productivity index 1985–2000 (index 1985 = 100)	338
11.7	Peru: CGE simulations – effects on macroeconomic indicators	341
11.8	Peru: CGE simulations – effects on employment and remunerations	346
11.9	Peru: microsimulations – effects of trade policy measures and external shocks on poverty and inequality (32 repetitions)	351
12.1	Uruguay: main economic indicators	364
12.2	Uruguay: current account deficit decomposition (percentage of GNP)	365
12.3	Uruguay: exogenous demand factors and their contribution to GDP growth (percentages calculated from 1983 constant prices)	366
12.4	Uruguay: decomposition of sectoral product growth (percentages of sectoral GDP)	368
12.5	Sector classification of SAM for Uruguay	373
12.6a	Uruguay: CGE simulations of trade policies. Real variations of macroeconomic indicators, factor employment and income (percentage change from base year)	377
12.6b	Uruguay: CGE simulations of trade policies. Real variations of macroeconomic indicators, factor employment and income (percentage change from base year)	378
12.7a	Uruguay: CGE simulations of exogenous shocks. Real variations of macroeconomic indicators, factor employment and income (percentage change from base year)	379
12.7b	Uruguay: CGE simulations of exogenous shocks. Real variations of macroeconomic indicators, factor employment and income (percentage change from base year)	380
12.8a	Uruguay: microsimulations of trade policies. Poverty incidence, Gini coefficient for household and labour income (percentage variation from base year)	385
12.8b	Uruguay: microsimulations of trade policies. Poverty incidence, Gini coefficient for household and labour income (percentage variation from base year values)	386
12.9a	Uruguay: microsimulations of external shocks. Poverty incidence, Gini coefficient for household and labour income (percentage variation from base year values)	387
12.9b	Uruguay: microsimulations of external shocks. Poverty incidence, Gini coefficient for household and labour income (percentage variation from base year values)	388

Figures

2.1	(a) Growth performance in the 1990s compared to 1960–80 (b) Bright and dark sides of growth in the 1990s	12
2.2	(a) Latin America and the Caribbean: export structure, 1988 and 1998. (b) South America (excluding Brazil): export structure, 1988 and 1998	14
3.1	Circular flow in a SAM/CGE model	56
3.2	National SAM used in the CGE model	57
3.3	Mapping from macro changes to poverty outcomes	63
3.4	Poverty and inequality responses to CGE simulations – domestic policy scenarios	94
3.5	Poverty and inequality responses to CGE simulations – FTAA and WTO scenarios	95
5.1	Bolivia: decomposition of contribution of domestic and external demand to GDP growth: (a) 1993–6 average relative to 1989–92 and (b) 1997–9 average relative to 1993–6	157
5.2	Trade-weighted real exchange rates for Bolivia (index, 1995 = 100). ITCR is the overall trade-weighted real exchange rate, CAN that with the Andean countries and Mercosur that with the Southern Cone trading partners	160
7.1	Costa Rica: exports of goods and services, 1985–2001 (millions of US\$)	209
7.2	Costa Rica: traditional and non-traditional exports, 1985–2001 (millions of US\$)	209
7.3	Costa Rica: contribution of changes in aggregate demand components to GDP growth, 1985–2001	212
7.4	Costa Rica: household income poverty and inequality, 1988–2001	214
9.1	Ecuador: real exchange rate (trade-weighted), 1971–2002 (index, 1994 = 100)	278
9.2	Ecuador: (a) export structure, 1980–2002 and (b) non-traditional exports, 1991–2002 (millions of US\$)	280
9.3	Ecuador: skilled and unskilled wage gap, 1988–2001 (ratio of mean income skilled to unskilled workers)	282
9.4	Ecuador: urban unemployment rate (right-hand scale) and wage gap (left scale) between formal and informal sector workers, 1988–2001	282
9.5	Ecuador: real wage, real exchange rate and urban poverty trends (index, 1990 = 100)	283
9.6	Ecuador: urban poverty and inequality, 1988–2001	283