



## The World Today

### Comparing Latin America and East Asia

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In a recent article by Anthony Elson in the Journal *Finance and Development*, he pointed to the widening gap in economic performance between Latin America and the Caribbean (LAC) and East Asia (EA), and asked the question, ‘What Happened?’

In the 1970s real GDP per capita grew on average by 4.8% in EA as compared to 3.6% in LAC. In the 1980s the comparable figures were 6.1% for EA and –0.6% for LAC. In the 1990s the figures were 7.0% for EA and 1.8% for LAC. That trend continued in the period 2000-05. Two high performers of the Asian region are Hong Kong (pop.7 million) and Singapore (pop.4.2 million) both of whose per capita income exceeds US\$ 25,000.00. The foreign reserves of both these small countries have crossed the US\$100 billion mark.

Trade has been a major factor in the transformation of East Asia. LAC’s share of global exports (5½%) hardly changed between 1980 and 2000, while EA’s share not only more than doubled, but a high proportion of this trade included high technology exports.

In trying to explain the differences in economic performance, Elson rules out the factor of geography arguing that it “does not significantly differentiate Latin America and East Asia. Both regions contain resource-rich and resource-poor countries; both regions include a roughly similar portion of territory in the tropics; and both are similarly located in relation to major trade markets.”

The reasons for the differences in economic performance are to be found elsewhere. Among them “was the lack of consistent and stable economic policies in Latin America.” Fiscal instability, high inflation rates and uncompetitive exchange rates are detrimental to economic growth. East Asia’s saving and investment rates have been consistently above those of Latin America. Not only has East Asia been a larger recipient of foreign direct investment, but most of this has gone into manufacturing which has fed exports. Technological change in EA has been far more rapid than in LAC.

Public institutions and policies play a key role in economic development. Policy consistency, policy credibility and the strength and independence of government bureaucracy were seen as critical elements in EA’s performance, where great attention was paid to the development of a professional merit-based civil service.

In the Caribbean, periodic surges in economic activity, largely externally propelled, have tended to mask serious weaknesses in economic strategies, poor economic management and the breakdown of institutions many of which have been reshaped to serve narrow political ends. With the decline of traditional activities and the failure of import substitution, these countries have no clear economic agendas, and there is a great disconnect between economic policies, which remain incoherent at best, and economic objectives.

Besides the packaging and processing of foreign goods and the energy-based industries in Trinidad and Tobago, an industrial sector hardly exists in the Caribbean. The export sector remains highly concentrated. More effort is spent seeking “special and differential treatment” in foreign markets than in addressing production and productivity issues. The neglect of agriculture has resulted in a massive food import bill, increasing the vulnerability of these countries. Given the lack of government support, the alienation of agricultural land, and the flight of people from agriculture, all signs point to the eventual disappearance of the sector from the economic landscape. The grab for agricultural land for non-agriculture purposes is almost obscene.

While the governments of the rich countries recognize the value of agriculture and have given it massive subsidies and support to deal with the inherent risks, policies in the Caribbean have militated against the growth and transformation of this sector, which occupies a low place among development priorities. Agricultural plans have been subverted and overtaken by platitudes. Farmers are a dying breed.

While the fast growing economies are associated with high rates of saving and investment, deliberate policies to increase savings are generally lacking as the macroeconomic environment has become increasingly hostile. High inflation rates are inimical to the saving process. The investment climate is far from ideal. The provision of personal security, the efficient working of public institutions and the engendering of confidence are responsibilities governments cannot take lightly. The flight of people, especially skilled people and entrepreneurs, and capital, has major consequences for development.

In a large number of developing countries, the quality of the public service has deteriorated over time, with grave consequences for public sector management. With greater use of foreign experts, national capacity has declined. The politicization of the public service has made it difficult to attract persons of high quality. With competence playing little part in appointments, public institutions have become dysfunctional and are unable to deliver the quality of service expected of them. Sometimes the more money spent, the worse the service becomes. In critical areas such as health, water and electricity, there has been significant deterioration because of poor management and official indifference. Education policies are not closely aligned with development objectives and generally lack vision. The increasing number of certified illiterates who have gone to school, or the failure to produce persons with the desired skills, tell a story

of mismanagement and unconcern. The question is not what percentage of the budget goes into a particular sector, but how effective is this spending.

In most of the countries of the region, there are serious questions about the relevance of the governance arrangements adopted at the time of independence. Far from building societies, these structures have had a divisive effect leading to the less than optimum use of human resources. In the struggle for power institutions have been corrupted and have lost the confidence of people.

At the regional level, there has been cooperation in some important areas, but there are also areas where there are dismal failures notwithstanding the endless meetings and numerous studies over 40 years. In the areas of air transport, mining, agriculture and manufacturing, integration of production and the rationalization of the region's limited resources has remained a pipe dream, as parochial policies continue to drive nationalist development. In today's world, Caribbean countries cannot escape the fact that they have to compete with the rest of the world. Rhetoric alone will not suffice.