



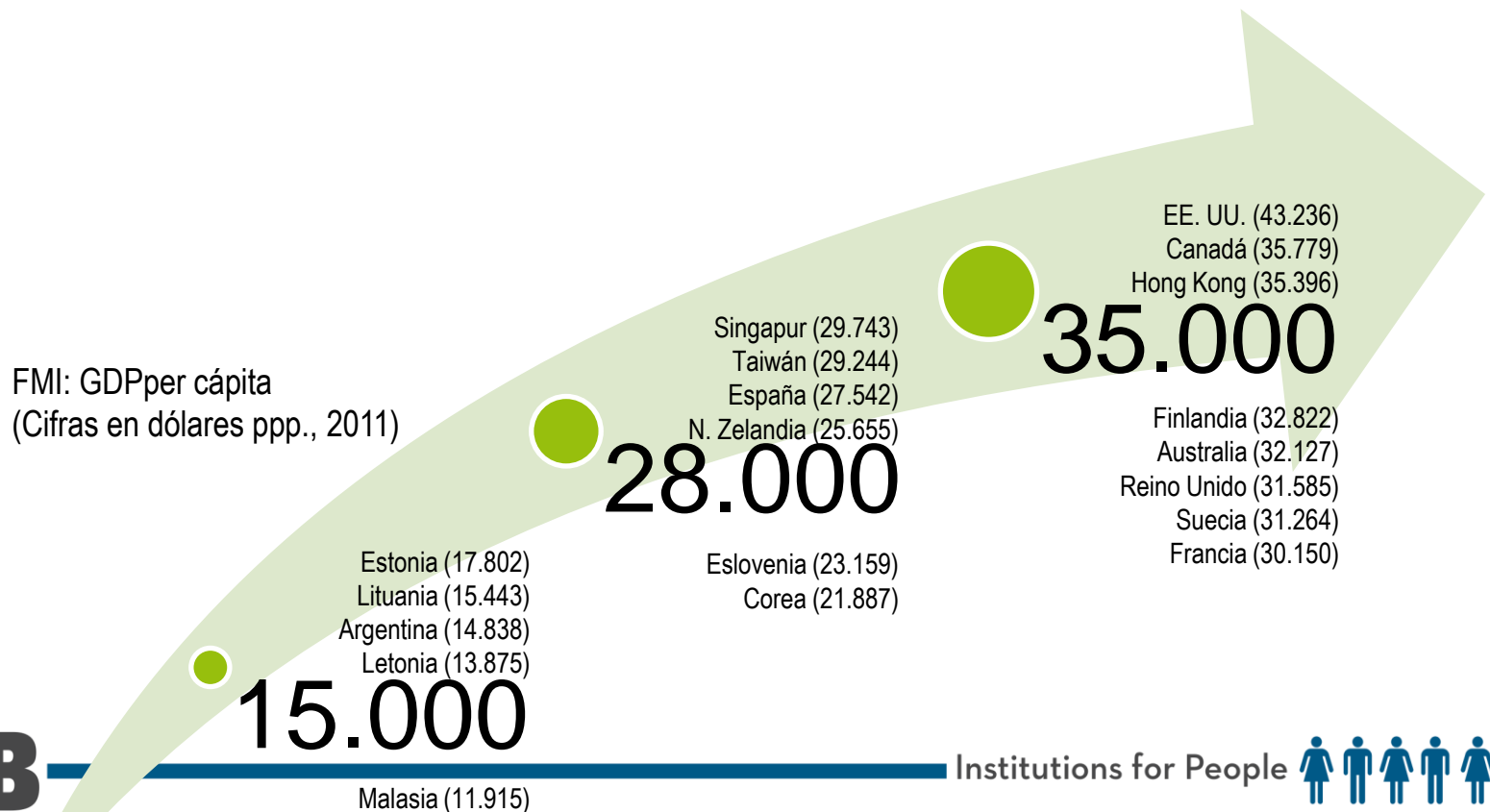
# Economic Diversification in Latin American Countries : What we have learnt

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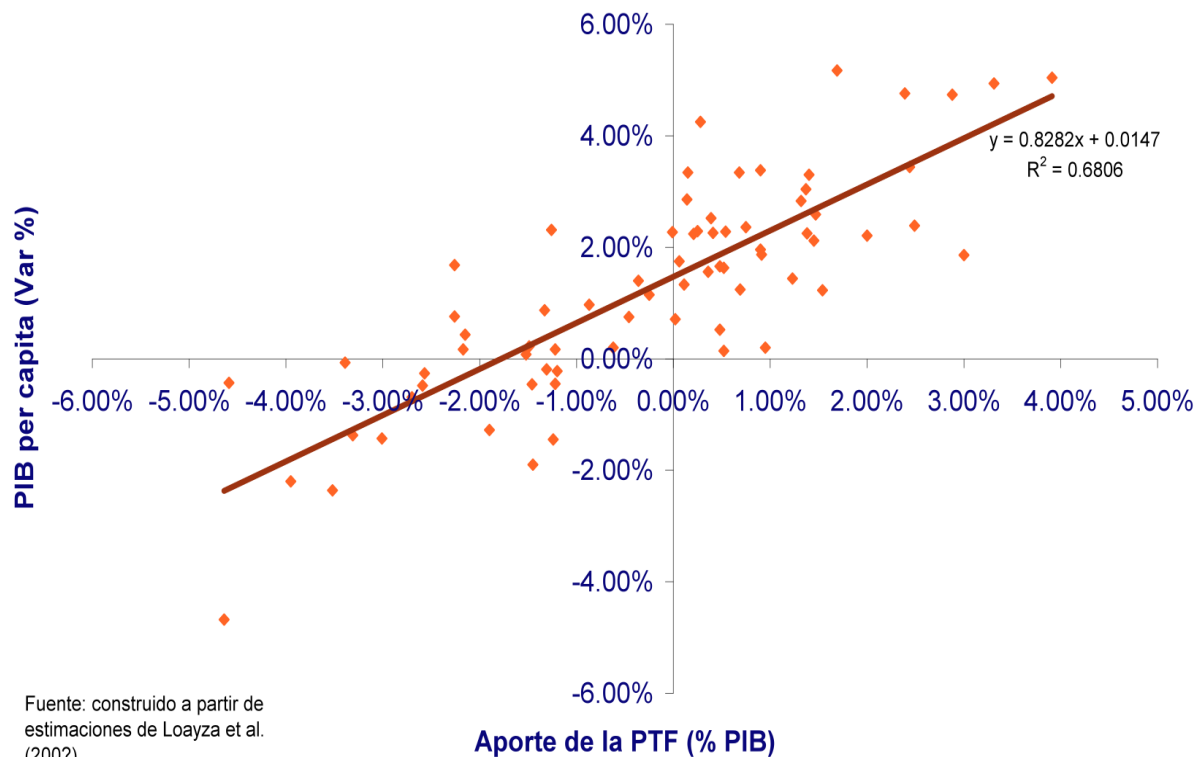
# What do we know

Production diversification as part of a development strategy. Is not a goal itself; should be considered as a mean.



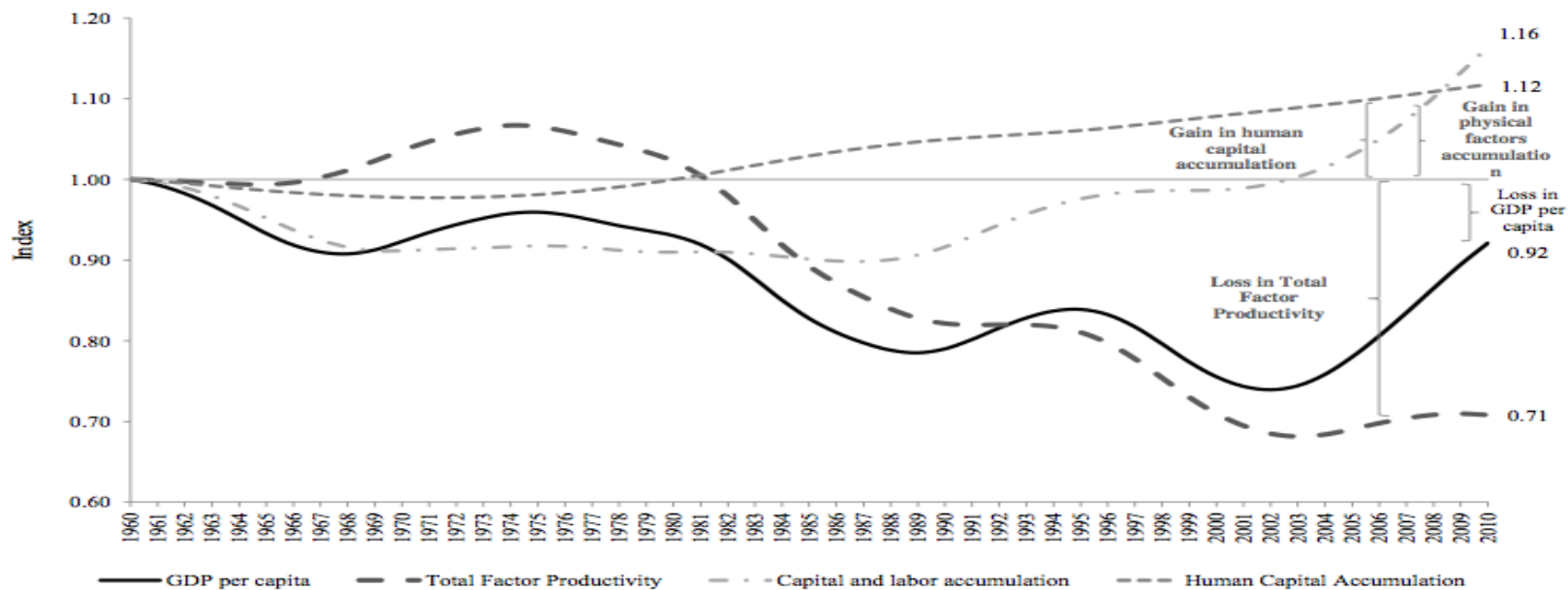
Today, more advanced Latin American countries are concentrated on the “inspiration” side of growth rather than on the “perspiration” side.

### Relación entre aporte de PTF y crecimiento del PIB per capita



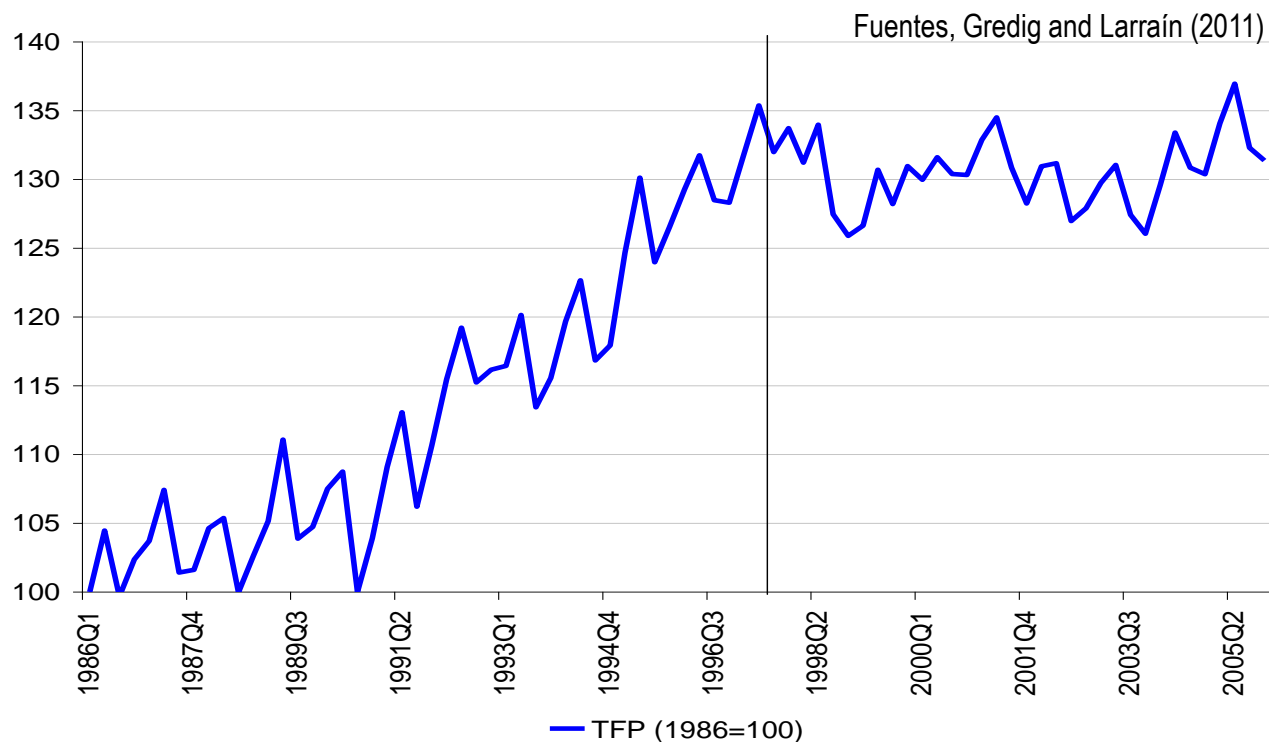
Fuente: construido a partir de estimaciones de Loayza et al. (200?)

The “inspiration” side is the weakest bit of the LA countries.



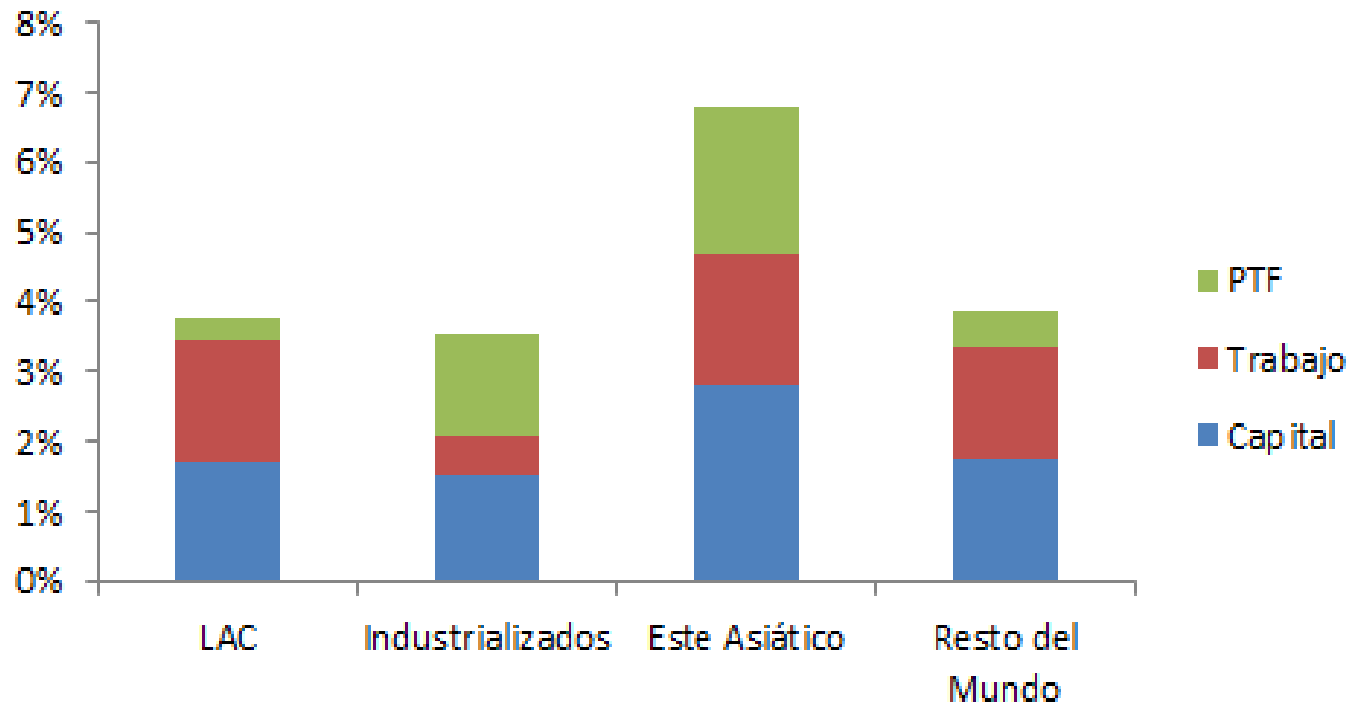
Source: Authors' calculations based on Barro and Lee (2013) and Feenstra, Inklaar, Timmer (2013).

# Chile as a interesting case of middle income tramp.

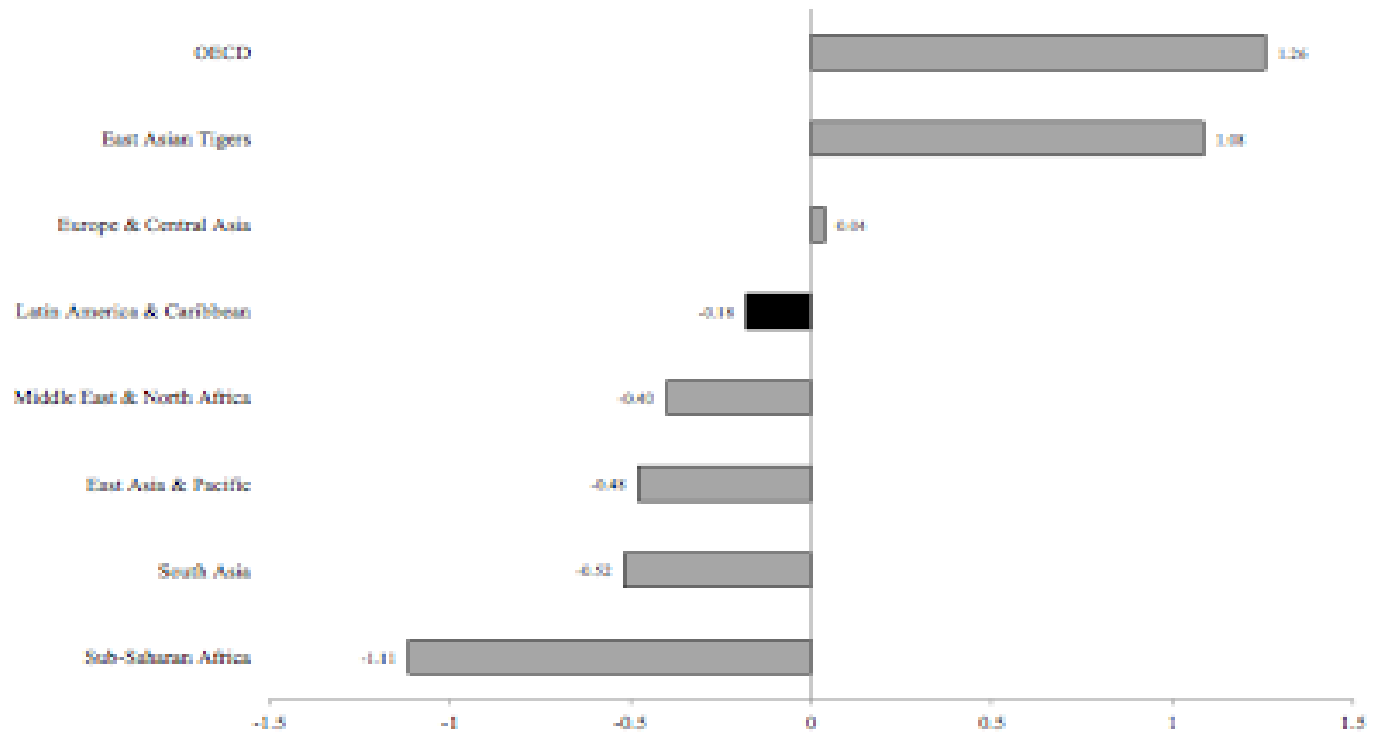


Again, PTF as a major problem for LA countries growth strategy.

**Fuentes de Crecimiento del PIB  
1960-2010**



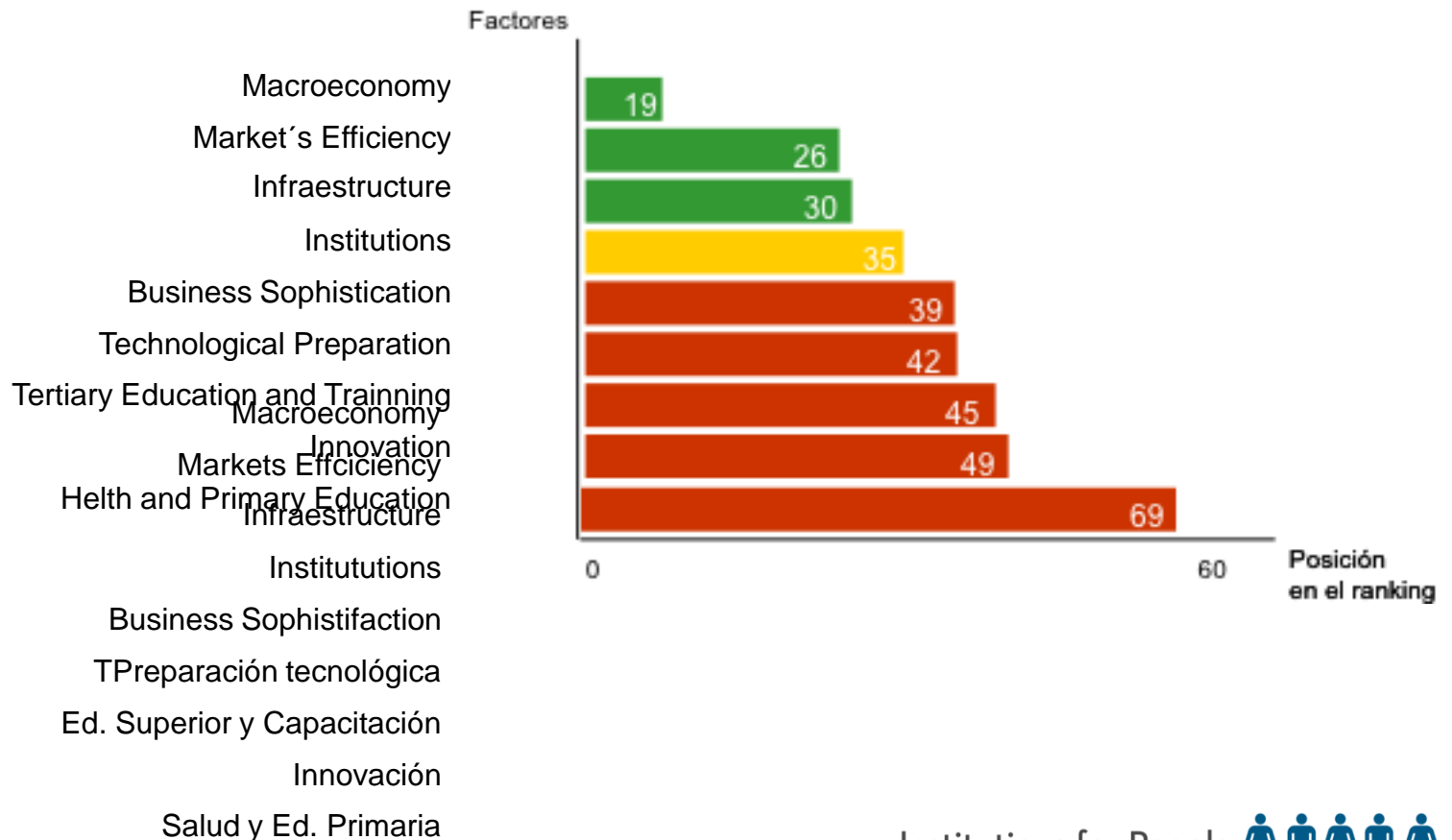
This pattern is consistent with a less complex production pattern.



Source: Authors' calculations based on Hausman et al. (2011).



WEF Indices also consistent with a lag in the “inspiration” side.



## High heterogeneity among sectors.

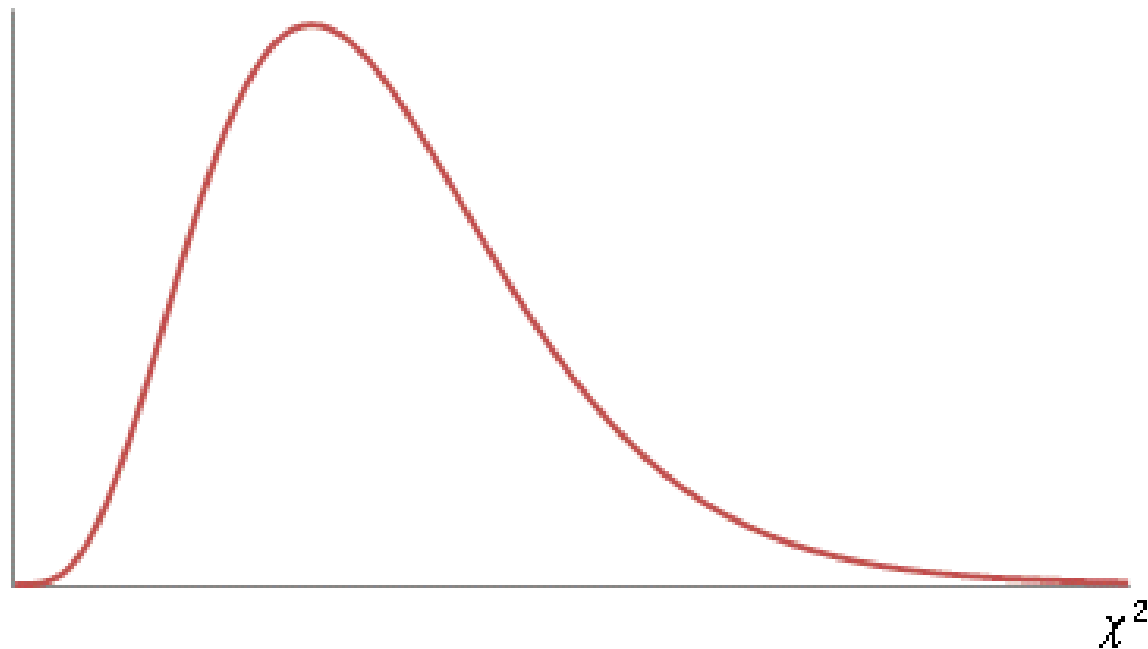
	Agregado	Agregado sin RRNN*	Agricultura, caza y pesca	Minería	Industria
1993-1998	2.2%	1.6%	0.7%	9.4%	2.3%
1999	-3.5%	-5.2%	-6.1%	-1.4%	-2.4%
2000-2008	1.0%	2.3%	6.0%	-6.6%	0.0%
2009	-2.2%	-2.4%	-2.0%	-6.2%	-4.1%
2010-2013T2	0.5%	1.8%	0.4%	-11.8%	-0.7%
1993-2013T2	0.9%	1.4%	2.5%	-2.5%	0.2%

	Electricidad, gas y agua	Construcción y obras	Comercio	Transporte y comunic.	Servicios financieros**
1993-1998	-1.3%	-2.4%	9.0%	2.8%	-0.2%
1999	-6.6%	-0.9%	-6.2%	0.7%	-0.7%
2000-2008	-1.8%	1.4%	2.7%	-1.1%	3.4%
2009	7.5%	-5.1%	-6.8%	-1.0%	-7.0%
2010-2013T2	2.8%	-0.8%	6.1%	2.6%	1.5%
1993-2013T2	-0.7%	-0.5%	4.2%	1.0%	1.5%

Boletín Productividad (UAI, 2013)

High heterogeneity among firms inside the same sector.



# How to Deal with all This ?

Based on the LA experience, things that should be considered while reshaping the productive strategy (above the obvious ones)

Market Size  
matters

Natural Resources Endowment  
matters

Distance to International Markets  
matters

Institutions also  
matters

There is no silver bullet kind of intervention

Need a Framework that guides both analysis  
and interventions

Market Failure Argument  
works

Horizontal versus Vertical Interventions

# Interventions

Horizontal

Vertical

Public  
Inputs


Market  
Interventions

# Interventions

Horizontal

Vertical

Public  
Inputs

Property Rights  
Protection

Fitosanitary  
Controls

Market  
Interventions

R&D Tax Credit

Tourism Tax  
Exemptions



Horizontal Interventions as a first phase.

Vertical ones as a second phase but have to be very careful in State Failures.

Time Inconsistency

Agency Problem

Public Capture

# Institutions Matters (and a lot)

***Strategy***

***Policy Design***

***Policy Implementation***

# Institutional Design should avoid State Failures

Separation between design and policy  
execution

Only one responsible of the policy design  
(CEO)

Independent strategic agency

Execution agencies with a  
private/academic/public boards

# Role of Science, Technology and Innovation

Science and technology are not rich countries hobbies. They have (partly) explained why these countries are developed.

Theoretical (Romer, 1990; Aghion y Howitt, 1992) and empirical works (Grilliches, 1995, Hall y Jones, 1999, Rouvinen, 2002) suggest that causality goes from efforts in generating new ideas to productivity enhancements and not the reverse.

Firms efforts aimed at the development of new products and processes (innovations) normally generates negative short-run impacts on productivity.

R&D return are almost twice as capital expansion ones (Lederman y Maloney, 2003; Hall, Mairesse y Mohnen, 2009).

However, they have a negative impact on production line's productivity (Goto y Suzuki, 1989; Benavente, De Gergorio y Nuñez, 2005)

For small domestic markets countries, innovations and R&D efforts seems to be the result of overseas competitions rather than a corporate decision.

Learning by exporting phenomena rather than export self selection (Benavente, Bravo y González, 2014)

However, both have positive impacts on productivity (Bernard y Jensen, 2004; Alvarez y Lopez, 2005)

And innovation has also other interesting effects.

Process innovation have a positive net effect on employment at a firm level (Harrison, Jaumandreu, Mairesse y Peters, 2008; Mohnen, 2011; Benavente y Lauterbach, 2005).

Ans may also have on income distribution (.. In progress)



# Final Comments

Productive diversification as part of a development strategy.

No single silver bullet policy rather than a systemic and dynamic view.

Institutions are - sometimes not considered, very relevant issues. But difficult in implementing.

Trade offs between visibility and impact.

Institutions for People



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