CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

1

Latin American Economic Development

An Overview

The expression "Latin America," whose origin goes back to the mid-nineteenth century,[1] at first had little more than geographical significance – it referred to all those independent countries south of the Río Grande in which a language derived from Latin (i.e., Spanish, Portuguese, and French) was predominantly spoken. In this original meaning, the only characteristics common to the countries of Latin America were their location in the Western Hemisphere and the origins of their language. In many respects the differences between the countries were considered to be as important – if not more so – as what they shared.

These differences – whether of size, population, ethnicity, natural resources, climate, or level of development – are still very important, but it has also become clear that the republics are held together by much more than geography and language. The shared colonial experience, as divisions above all of the Spanish or Portuguese empires, was crucial in shaping the economic and political destinies of the new republics after independence. The pattern of development in the nineteenth century, based on the export of natural resources to the industrialized countries, reinforced this sense of a shared past.

Thus there is real meaning to the phrase "Latin America," and the factors in common are stronger than those that bind the countries of Africa, Asia, or Europe. Furthermore, the membership of the Latin American club has been fairly stable since independence, with relatively few additions or subtractions as a result of border changes, secession, or

[1] See Bethell (2010), 457–59, who also argues that the expression "Latin America" was not at first meant to include Brazil.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

MAP 2. Latin America, circa 1826.

annexation (see Maps 2 and 3); indeed, the boundaries of Latin American states, although often the source of interstate conflict and still not entirely settled,[2] have changed much less in the past 150 years than have frontiers elsewhere.

The countries of Latin America are conventionally defined as the ten republics of South America (excluding the three Guianas), the six

[2] The main border disputes (including maritime boundaries) still outstanding are the following: Guatemala and Belize; Colombia and Venezuela; Venezuela and Guyana; Costa Rica and Nicaragua. The long-standing territorial dispute between Argentina and the United Kingdom over the Falkland Islands also remains unresolved.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

MAP 3. Latin America, circa 2010.

republics of Central America (including Panama but excluding Belize), Mexico, Cuba, the Dominican Republic, and Haiti – a grand total of twenty.[3] Spanish is the main language in eighteen republics, whereas Portuguese is predominant in Brazil, and French-derived *Kréyol* in Haiti.

[3] This definition excludes most of the Caribbean. For an economic history that covers all the Caribbean islands, and the three Guianas and Belize, see Bulmer-Thomas (2012).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

Indigenous languages are still spoken by large proportions of the population in Mexico, Guatemala, Ecuador, Peru, Bolivia, and Paraguay, and English is the first language of numerous minorities throughout the region. Japanese can be heard on the streets of São Paulo, Brazil, where at least one million inhabitants are of Japanese descent, and there are important colonies of Chinese and Middle Eastern origin in many republics.

Puerto Rico, a Spanish colony until 1898, was annexed by and remains a commonwealth associated with the United States.[4] Although clearly part of Latin America in the nineteenth century, Puerto Rico has usually been excluded from the definition since then – a decision that many find harsh but that has been justified by its very different pattern of development as a result of its special relationship with the United States. Thus throughout this book Puerto Rico will appear in discussions of the nineteenth century, but with less frequency in subsequent analyses. By contrast, Panama was not listed as a Latin American country in the nineteenth century because it was still part of Colombia. Its secession in 1903, aided and abetted by President Theodore Roosevelt, led to independence. It is therefore included in the list of post–nineteenth-century Latin American republics.[5]

The majority of Latin American countries won independence from their European rulers in the 1820s.[6] Contemporary accounts by Latin Americans and foreigners were filled with glowing reports of the prospects that could be achieved once Spain and Portugal were deprived of their commercial and other monopolies in the region. Standards of living may have been low by comparison with rich countries at the time and even by comparison with the United States (see Appendix 3), but the opportunities for growth were thought to be substantial. Only capital and skilled labor were needed, it was said, to unlock the natural resources in Latin America's vast unexploited interior and unrestricted access to the wealthy markets of Western Europe.

Two centuries later, that dream has still not been fulfilled. None of the twenty republics in Latin America can yet be classified as high-income, and a few remain extremely poor. Pockets of wealth can be found in all

[4] On Puerto Rican history and its peculiar constitutional status, see Carr (1984). Its people voted for a change of status by referendum in November 2012.

[5] For the secession of Panama from Colombia and its creation as an independent republic, see Lafeber (1978).

[6] The exceptions are as follows: Haiti won its independence from France in 1804, Uruguay was created in 1828 as a buffer state between Argentina and Brazil, the Dominican Republic secured independence from Haiti in 1844, Cuba won its independence in 1902, and the special case of Panama has already been mentioned (see note 5, above).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

republics, but these cannot conceal the deprivation and hardship suffered by the region's many poor inhabitants. Although Latin America is not among the poorest regions in the world, it has now been overtaken by parts of Asia that almost certainly had much lower standards of living throughout the nineteenth century.[7] Latin America's achievements in the fields of literature, art, music, and popular culture rightly win admiration around the world, but this is only partial compensation for failure to bridge the enormous gap between the standards of living in most of the region and those in the developed countries.

Economic development is usually measured by a series of indicators, of which the most commonly used are gross domestic product (GDP) and gross national income (GNI) per person.[8] Other indicators are life expectancy at birth, carbon dioxide emissions per head, infant mortality per thousand births, telephones per thousand people, progress towards Millennium Development Goals (MDGs), and so on. Almost irrespective of the choice of indicators, Latin America comes out midway between the high-income countries of North America and Western Europe and the poorest countries of sub-Saharan Africa and South Asia (see Table 1.1). The World Bank classifies all the Latin American republics as "middle income," except Haiti, which is classified as "low income"; but this cannot disguise the fact that GNI per head in the region was only 20 percent of the level found in the high-income countries at the end of the first decade of the twenty-first century.[9]

Lack of economic success over the long run has not meant stagnation. On the contrary, change has been rapid in Latin America, and this is nowhere more apparent than in the rate of urbanization. Population expansion has been centered on cities, in part as a result of international migration in the nineteenth century and rural–urban migration in the twentieth century. Thus, as Table 1.2 makes clear, Latin America is now predominantly urban, with 80 percent of its inhabitants living in towns or cities. Because the average rate of urbanization for all middle-income countries is 50 percent, this has led to the charge that Latin America is

[7] Examples are South Korea, Taiwan, Singapore, and Hong Kong (see World Development Indicators on the Web site of the World Bank – hereafter WDI, http://databank.worldbank.org/).

[8] GDP refers to the net output generated by factors of production irrespective of whether they are resident; GNI adjusts the GDP figure for net factor income paid abroad. The difference can be important in a number of Latin American republics, as a result, for example, of the presence of foreign-owned companies.

[9] International GNI comparisons are very dependent on the choice of the exchange rate. Other comparisons (based, for example, on purchasing power parities) suggest a smaller gap, though the difference still remains considerable; see WDI.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

TABLE 1.1. *Comparative Development Indicators for Latin America, circa 2010*

	GNI Per Head (US$)[a]	Life Expectancy (in years)	Infant Mortality (per 1,000)	Internet Users (per 100)
Low & middle income	3,288	67.6	63.3	21.5
South Asia	1,176	65.3	67.0	8.1
Sub-Saharan Africa	1,199	54.2	121.2	11.3
Latin America & Caribbean	7,833	74.1	23.3	34.1
High income: OECD	40,197	80.0	5.6	74.8
North America	46,938	78.5	7.4	75.0
European Union	33,948	79.6	5.1	70.8

[a] Economies are divided among income groups according to 2010 gross national income (GNI) per head, calculated using the World Bank Atlas method. The groups are as follows: low income ($1,005 or less); lower-middle income ($1,006–$3,975); upper-middle income ($3,976–$12,275); and high income ($12,276 or more).

Source: World Bank, World Development Indicators (hereafter WDI).

"prematurely mature." Indeed, the spectacular growth of the informal sector in Latin American cities is evidence of the difficulty many new entrants to the urban labor market have in finding secure, productive jobs.[10]

Latin America includes some of the largest urban areas in the world: Mexico City and São Paulo, both of which have 20 million inhabitants in their metropolitan areas, have all the problems of pollution associated with large conurbations in industrial countries. What is striking about Latin American urbanization, however, is the problem of primacy; that is, the disproportionately rapid growth of the principal city in each republic. Except in Brazil, Venezuela, and El Salvador, the proportion of the urban population living in the main conurbation is far above the world average. Thus the capital city is usually the leading industrial, commercial, financial, and cultural, as well as the administrative, center.[11]

[10] Numerous definitions of the informal sector exist, but it is easiest to think of it as employing all those workers not absorbed by medium- or large-scale firms in the private and public sectors. By that definition the urban informal sector accounts for more than 50% of the labor force in many Latin American cities; see, for example, Fernández-Kelly and Shefner (2006).

[11] The main exception is in Brazil, where the capital was moved from Rio de Janeiro to the newly created Brasília in the 1950s. The new capital, though an important city in its own right, is still overshadowed by Rio de Janeiro and São Paulo in almost all areas of private enterprise.

© in this web service Cambridge University Press www.cambridge.org

Cambridge

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

TABLE 1.2. *Demographic Indicators, 1970–2010*

Country	Population in 2010	Urbanization in 2010[a]	Population Growth (% per year)			
			1970–80	1980–90	1990–2000	2000–10
Argentina	40,412,000	92.4	1.6	1.5	1.2	0.9
Bolivia	9,929,000	66.5	2.4	2.2	2.2	1.8
Brazil	195,000,000	86.5	2.4	2.1	1.5	1.1
Chile	17,113,688	89.0	1.6	1.7	1.6	1.0
Colombia	46,295,000	75.1	2.3	2.1	1.8	1.5
Costa Rica	4,659,000	64.3	2.6	2.7	2.5	1.7
Cuba	11,258,000	75.7	1.2	0.7	0.5	0.1
Dom. Republic	9,927,000	70.5	2.5	2.2	1.8	1.5
Ecuador	14,465,000	66.9	2.9	2.6	1.9	1.6
El Salvador	6,193,000	61.3	2.2	1.4	1.1	0.4
Guatemala	14,389,000	49.5	2.6	2.4	2.3	2.5
Haiti	9,993,000	49.6	1.9	2.3	2.0	1.5
Honduras	7,600,000	48.8	3.0	3.0	2.4	2.0
Mexico	113,000,000	77.8	2.9	2.1	1.7	1.3
Nicaragua	5,789,000	57.3	3.1	2.4	2.1	1.3
Panama	3,517,000	74.8	2.6	2.1	2.0	1.8
Paraguay	6,454,000	61.5	2.6	2.9	2.3	1.9
Peru	29,076,000	71.6	2.7	2.3	1.8	1.2
Uruguay	3,357,000	92.5	0.4	0.6	0.6	0.2
Venezuela	28,834,000	94.0	3.5	2.8	2.1	1.7
Latin America	577,260,688	79.6	2.4	2.1	1.7	1.3

[a] Defined as percentage of population living in urban areas in 2010. The population classified as urban follows national definitions.

Source: WDI.

The rate of population growth, as Table 1.2 makes clear, has been steadily declining. The demographic transition, under which birth rates start to fall in line with the earlier fall in death rates, is well under way, and some countries – notably Argentina, Chile, Cuba, and Uruguay – have already achieved very modest rates of population growth. Brazil and Mexico, the two most populous countries, had high rates of population growth until the 1990s. Their share of the Latin American total – 53 percent in 2010 – can be expected to decline now that birth rates are below the regional average.

In most less-developed countries (LDCs) a rapid rate of urbanization is consistent with an increasing rural population. Rural–urban migration may be important, but urban areas cannot normally absorb all the increase in the rural population. The expanding populations must still find new work opportunities in rural areas. In many Latin American

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

countries, however, urbanization has been pushed to the point where rural–urban migration leads to an absolute fall in the rural population – not just in its rate of growth. In Argentina, Brazil, and Venezuela, for example, the rural population has fallen by at least one-third since 1980, and it has stopped rising in many others.

By contrast, Latin America's population in the 1820s – not much larger in total than Mexico City's is today – was overwhelmingly rural, with the labor force concentrated in agriculture and mining. The natural resources produced by these sectors provided the link with the rest of the world, and international flows of labor and capital were concerned directly or indirectly with increasing the exportable surplus. Some of the commodities for which Latin America is still famous, such as sugar, were already in place by the time of independence; many others, such as coffee, joined the list in the nineteenth century.

The importance of these primary commodities declined rapidly after 1980. Indeed, their share of merchandise exports almost halved in the two decades before 2000 (see Table 1.3). Much of the decline was because of Mexico – Latin America's leading exporter – where goods for processing (*maquila*) have become very important. In the first decade of the twenty-first century, however, primary products have become more important, with the share of exports rising to nearly 60 percent (see Table 1.3).

The reasons for this are complex, but they are above all a consequence of the rise in price of the main commodities exported by Latin America. This, in turn, has been because of the increase in world demand – especially by Chinese firms. Thus, China has become a leading trade partner for many Latin American countries and the principal market for several countries, including Brazil. Primary product exports have once again resumed their importance in Latin American development. Furthermore, many of the nontraditional manufactured exports from Latin America – such as textiles, leather products, and furniture – are based on natural resources. Thus it is fair to say that primary commodities still provide the main link with the rest of the world. This statement is even more accurate if we include illegal drugs, such as cocaine and marijuana, in the export list.

The exploitation of natural resources in Latin America, as in so many parts of the world, has been carried out with scant respect for the environment. The forest cover has been depleted, rivers and lakes have been polluted, and dangerous chemicals have entered the food chain. Local awareness of these problems has been slowly increasing, but Latin America faces the additional problem that the Amazon Basin – shared by Brazil, Colombia, Ecuador, Peru, Venezuela, and the Guianas – houses

© in this web service Cambridge University Press www.cambridge.org

Cambridge

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

TABLE 1.3. *Primary Products as a Percentage of Merchandise Exports, 1980–2010*

Country	1980	1990	2000	2010
Argentina	76.9	70.9	67.9	67.8
Bolivia	97.1	95.3	72.9	92.6
Brazil	62.9	48.1	42.0	63.6
Chile	88.7	89.1	84.0	89.6
Colombia	80.3	74.9	65.9	77.9
Costa Rica	70.2	72.6	34.5	39.8
Cuba	93.1	92.0	90.5	82.0
Dom. Republic	76.4	35.9	59.9	33.4
Ecuador	97.0	97.7	89.9	90.2
El Salvador	64.6	64.5	51.6	38.0
Guatemala	75.6	75.5	68.0	65.3
Haiti	30.5	14.6	15.8	15.0
Honduras	87.2	90.5	64.4	79.9
Mexico	87.9	56.7	16.5	25.3
Nicaragua	81.9	91.8	92.5	93.7
Panama	91.1	83.0	84.1	86.8
Paraguay	88.2	90.1	80.7	89.3
Peru	83.1	81.6	83.1	89.1
Uruguay	61.8	61.5	58.5	74.3
Venezuela	98.5	89.1	90.9	95.7
Latin America	**82.8**	**66.5**	**42.6**	**57.6**

Source: ECLAC (2001) and (2012); Cuba in 2010 is derived from Cuba (2011); Dominican Republic figure for 1990 is 1988, and for 2000 is 2001; Haiti figure for 1980 is 1981, 2000 is 1997, and 2010 is an estimate.

the world's largest and most important reserves of tropical rain forests. Their destruction is widely believed to be a major contributor to global warming and to the greenhouse effect, so Latin America finds itself under pressure from the outside world to adopt environmental standards considered appropriate by richer countries.[12]

The problem of environmental damage, however, is not limited to natural resources. Rapid urbanization in the larger republics has been accompanied by impressive industrial growth. Chemical plants, steel mills, cement factories, and automobile assembly lines proliferated throughout the region as governments adopted policies that favored industrialization. This process, which began toward the end of the nineteenth century in the major countries of the region, accelerated after 1930

[12] For a good study of environmental issues in Latin America, see UNEP (2010).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition
Victor Bulmer-Thomas
Excerpt
More information

because the Great Depression and the Second World War provided a stimulus for firms that were able to replace manufactured imports with local products. By 1955 the contribution of manufacturing to real GDP had overtaken agriculture,[13] and in 2010 its contribution was roughly three times greater.

Industrial growth was rapid for much of the twentieth century, but it was not notably efficient. Shielded by tariffs and other barriers to imports, industrial firms, including multinational companies (MNCs), exploited the domestic market with high-priced, low-quality goods. Most firms were therefore unable to compete internationally, so foreign loans still had to be serviced with earnings from primary products. The rapid accumulation of external debts in the 1970s, in the wake of the two oil crises, left Latin America dangerously exposed, and primary product exports were unable to provide sufficient earnings to service external debts in the 1980s. As a result, awareness of the need to make industry internationally competitive has grown, and firms have come under pressure from all sides to cut costs and improve quality.

In this respect, Latin American countries have achieved a measure of success. Helped by Preferential Trade Agreements (PTAs) with the European Union (EU), the United States, Canada, and many other countries, as well as through regional integration schemes in Latin America itself, manufacturing exports have grown inside and outside the region. Coupled with the rise in the value of commodity exports, Latin American countries have succeeded in reversing the decline in the importance of trade that was such a marked feature of the region after 1930. Since 1980 the ratio of exports of goods and services to GDP has been steadily rising (see Table 1.4) – spectacularly so in the cases of Argentina, Chile, Mexico, Paraguay, and Uruguay.

The extraction of natural resources in Latin America and related investments in social infrastructure, such as railways, attracted foreign capital. The principal investor in the nineteenth century, Great Britain, had by 1930 been replaced in most countries by the United States. Subsequently, the state steadily increased its participation in economic activity, taking over public utilities, railways, and natural resources that had previously been controlled by foreigners. However, foreign capital remained important in a number of primary commodities, particularly non-oil minerals, and became attracted by the new opportunities in industry after the Second World War.

[13] At 1970 prices and net factor cost; see CEPAL (1978), table 5.

© in this web service Cambridge University Press www.cambridge.org