
GROWING PAINS IN LATIN AMERICA

*An Economic Growth Framework as
Applied to Brazil, Colombia, Costa Rica,
Mexico, and Peru*

Liliana Rojas-Suarez
Editor

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Contents

<i>Preface</i>	ix
<i>Acknowledgments</i>	xiii
1 <i>Introduction: A New Approach to Growth in Latin America</i> LILIANA ROJAS-SUAREZ	1
2 <i>Helping Reforms Deliver Growth in Latin America: A Framework for Analysis</i> CGD TASK FORCE	38
3 <i>Pro- and Anti-Market Reforms in Democratic Brazil</i> ARMANDO CASTELAR PINHEIRO, REGIS BONELLI, AND SAMUEL DE ABREU PESSÔA	68
4 <i>Colombia's Efforts at Achieving Inclusive and Sustainable Growth</i> ROBERTO STEINER, IRENE CLAVIJO, AND NATALIA SALAZAR	111
5 <i>Political and Institutional Obstacles to Reform in Costa Rica</i> JORGE CORNICK AND ALBRETO TREJOS	153
	vii

6 <i>How Can Reforms Help Deliver Growth in Mexico?</i>	192
GERARDO ESQUIVEL AND FAUSTO HERNÁNDEZ-TRILLO	
7 <i>Helping Reforms Deliver Inclusive Growth in Peru</i>	236
EDUARDO MORÓN, JUAN FRANCISCO CASTRO, AND CYNTHIA SANBORN	
<i>Contributors</i>	295
<i>Index</i>	297

Preface

At the Center for Global Development, we aim to generate ideas and policy recommendations that will improve the well-being of the majority of the poor and near poor in the developing world. Of all regions, Latin America stands out for the variety of development models its governments have implemented over the last half century, often inspired by the region's leading thinkers and often following deep economic crises that reversed short-term advances in income growth and poverty alleviation. This varied experience—and the lessons it offers to policymakers in Latin America and to rich-world development institutions—are therefore of particular interest to us at the Center.

In this book, Liliana Rojas-Suarez and other close students of Latin American economies ask key questions: Why, despite the impressive macroeconomic and other reforms of the last two decades, have most countries in the region been unable to generate higher growth on a sustained basis? What can individual countries do to help reforms deliver growth and a better distribution of its benefits? How should policymakers respond to the increasing discontent among large segments of the population with the results of market-based reforms?

This book stands firmly in the spirit of the development policy approach most recently propounded in the 2008 report of the Spence Commission on Growth: every country needs to forge its own practical approaches by adhering

to just a few principles. Policymakers should eschew any universal model and instead adapt and continuously adjust policies to their own country's circumstances. *Growing Pains in Latin America* also complements an earlier CGD book on Latin America, *Fair Growth*, in which my coauthors and I suggest a set of tools from which policymakers can pick and choose depending on country conditions. The emphasis on fairness as a fundamental objective in *Fair Growth* is reinforced in this new book, which argues that growth cannot be sustained if its gains are not broadly shared by the population.

To address country-specific questions while benefiting from lessons at the regional level, Liliana Rojas-Suarez with Simon Johnson (an MIT professor and a member of CGD's advisory group) organized a task force including the region's top scholars and economic policy practitioners to consider the impact of policy reforms on growth, poverty, and inequality. The group developed a region-specific framework, building on three characteristics that distinguish Latin America from other regions: It is the most democratic, it is the most financially open (more so than East Asia, which is more open on trade), and it has the greatest economic and social inequality. This framework is then applied in case studies of Brazil, Colombia, Costa Rica, Mexico, and Peru.

The resulting country-specific recommendations are a good example of the kind of work reflected in the Center's tag line: independent research and practical ideas for global prosperity. The book provides proposals that, while innovative and challenging, are also doable. Their practicality reflects broad consultation in each country with private sector representatives, academicians and other analysts, and the highest-level policymakers.

The book's applied analytical framework will interest not only policymakers in Latin America but also development policy experts in the rich world, including the bilateral aid agencies (especially those in the United States, Canada, and Spain, which take special interest in Latin America) and in multilateral financial institutions (particularly the World Bank, the International Monetary Fund, and the Inter-American Development Bank). Policy advisors in these institutions face the challenge to strike an appropriate balance between consistency, on the one hand, and the need to adapt to country circumstances, on the other.

The framework sets forth five necessary foundations for sustainable growth: secure property rights, sufficiently equal opportunities for broad segments of the population, sufficient economic and political competition, macroeconomic stability, and broad sharing among the population of the benefits from growth. By identifying which of these foundations needs to be strengthened in a specific country, policymakers can craft country-specific approaches to alleviate the most critical constraints. For example, Mexico is particularly constrained by inadequate economic competition in key sectors, such as telecommunications. Enhancing the powers and autonomy of the Federal Competition Commission, creating specialized courts in competition and regulatory cases, and other efforts

to improve an adequate implementation of antimonopoly laws are therefore important. Peru faces challenges in the broad sharing of the benefits of growth. Deep reforms of the state and the political system are essential so that legislation can be passed, and policies executed, that will reach the poor, especially in the rural areas. Colombia, on the other hand, has an activist judicial system that intervenes excessively in granting social benefits to the population, to the point that the government faces unremitting fiscal pressures. To help support macroeconomic stability, a key policy recommendation in Colombia involves creating incentives for the Constitutional Court to curtail its ability to tamper with economic matters.

While the analyses and recommendations differ significantly from country to country, they build on a common framework, and the reader will find some important commonalities. For example, there is an emphasis in all case studies on the political logic of incremental reform. Even when a major revamping is seen as essential, the studies call for pilot efforts designed to build constituencies that will support reform. Another common thread is the attention given to institutional strengthening, from reform of congresses, political parties, and electoral processes to the overhaul of judiciary systems and of mechanisms and institutions that determine competition policies.

I hope that this brief introduction will whet the reader's appetite to dig into the rest of this important book and that the framework and the case studies it contains will provide the basis for lively and informed policy discussions—and better policy design—in Latin America itself and in the rich-world development institutions that aim to support Latin America's drive to overcome its growing pains and enter a period of sustained, and shared, growth.

We are grateful to the Open Society Institute, the Tinker Foundation, and the Andean Finance Corporation, whose support helped make this book possible.

Nancy Birdsall
President
Center for Global Development

Washington, D.C.
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