

# The Medium and Small Economies of Latin America and the Caribbean during the 1990s

Ana Sueyoshi

Despite the fact that the 1990s has been regarded as the decade of macroeconomic stabilization and structural reform for Latin American countries, certain economies have not systematically implemented comprehensive economic reforms nor strict fiscal discipline complemented with monetary measures. These countries' economic policies either focused on stabilizing the main macro variables or introducing structural reforms in specific sectors. Contrary to the early reformers, Chile and Mexico; the rapid reformers, Argentina and Peru; and the timid reformers, Brazil, Colombia and Venezuela, the rest of the Latin American economies have evidenced different economic patterns of behavior that makes it difficult to draw a set of common conclusions. This paper aims to provide information on this last group of countries regarding structural reform and macroeconomic stabilization programs and to reveal their achievements in these two areas.

## **Bolivia**

Bolivia cannot be regarded as a high income country among LAC economies, but it has the merit of implementing early macroeconomic stabilization, and for that reason Bolivia deserved the right to be in the "early reformers" group with Chile and Mexico.

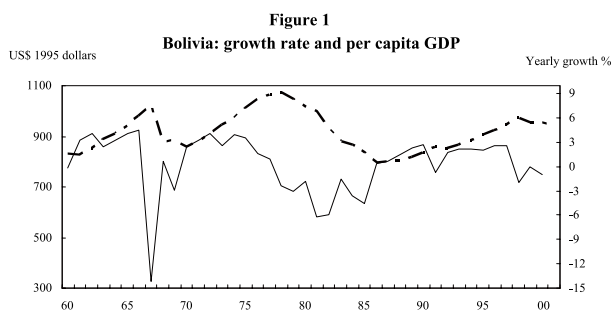
short and alternate administrations took office. Drastic orthodox economic measures were imposed on the economy under the surveillance of Jeffrey Sachs and it remains as a successful story of hyperinflation abatement and macroeconomic stabilization. However, in spite of controlling inflation and setting the basis for a sound economy, the next stage of economic recovery that could lead to poverty alleviation remained pending.

Since the nineties Bolivia has again started registering positive growth rates that have supported a gradual and sustained increase in its income level, reaching by 2001 almost US \$ 1000 dollars per capita, although this is still lower than the income level before the crisis trigger.

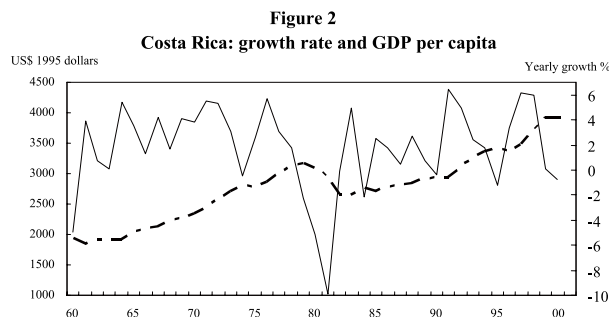
Bolivia is a net-natural-resource-exporter country, where metals and natural gas are its main export products, accounting for almost 40 percent of total exports. Bolivia as a small economy is still exposed to international price fluctuations, and therefore to external shocks.

## **Costa Rica**

Costa Rica, along with Chile, Colombia and Dominican Republic, has been considered in the group of the best economic performers in terms of economic growth achievements during the nineties.



As it can be observed in figure 1, Bolivia faced a disastrous economic crisis which led to political instability in the first half of the eighties, when a succession of

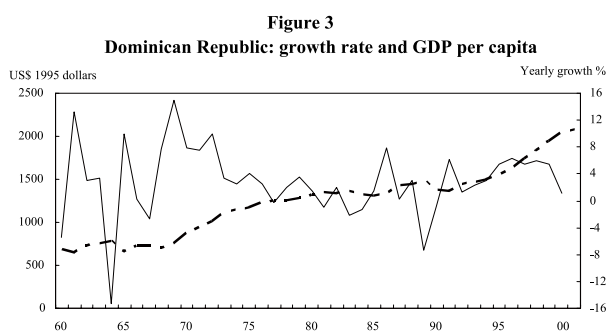


The Costa Rican economy during a 40 year span of time has almost duplicated its GDP per capita, surpassing

Mexico and Venezuela's income, and reaching fifth place only after the Southern cone countries and Brazil. This export-oriented country is moving from agricultural exports to products which contain more value added, such as products with high technological component, thus becoming less susceptible to international fluctuations,

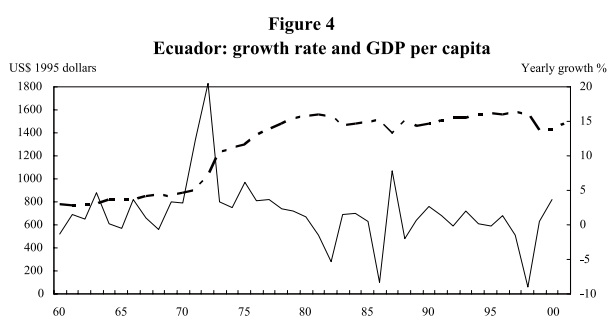
### **Dominican Republic**

The economic growth of this country has also been singled out, basically due to its four-fold outstanding increase of GDP per capita. As can be seen in figure 3, during the nineties the growth rates were positive, especially by the end of the decade, which made possible to almost double the income level in ten years. If we take a look at the above figure, we will notice that the 1982 crisis had no effect on this country's economic evolution.



### **Ecuador**

Ecuador, as well as Venezuela, is net-oil exporter in the region and therefore, as in the case of its Andean country partner, its economy is prone to external shocks, mainly due to international commodity prices. Both Ecuador and Venezuela are richly endowed with plenty natural resources and have not had satisfactory economic performances as expected, given their favorable initial conditions.



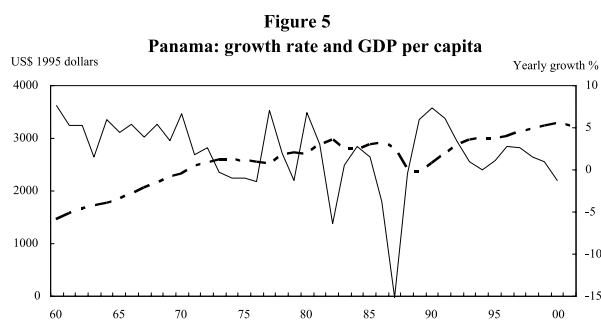
In the case of Ecuador, its GDP per capita has

remained the same for almost two decades with no major change. In Venezuela's case it was even worse, because the income level in this country decreased to a level lower than that of the sixties'.

By the late 1990s, Ecuador suffered its worst economic crisis, aggravated by natural disasters and sharp declines in world petroleum prices, which drove Ecuador's economy into a free fall in 1999. Real GDP contracted by more than 7 percent, the banking system collapsed, the currency was depreciated, and hyperinflation was soaring once again. All these events led to political instability and civil unrest that was menacing with the return of antidemocratic means. The decree of the total dollarization of the economy was preceded by a coup d'état and a short military junta.

### **Panama**

The nineties have been a decade of recovery for this country, after the sharp decrease registered in the second half of the eighties. This peculiar totally dollarized country bases its economy on export-led industries and the provision of international services, such as operating the Panama Canal, banking, the Colon Free Zone, insurance, container ports, flagship registry, and tourism.

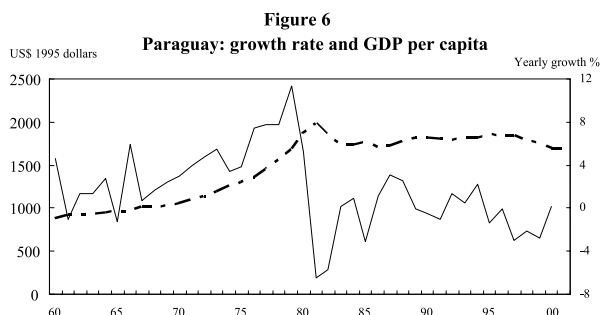


A singular aspect of this economy that contrasts with the others is the smoothness of its growth rate trend, especially during the nineties. As was concluded in my previous papers economic growth rate volatility is a stylized fact in Latin American and Caribbean economies (Sueyoshi, 2006). Panamanian growth rate behavior in the last decade traces a different path; because besides being positive, Panamanian growth is not as volatile as in the rest of the region.

### **Paraguay**

Paraguayan economy, nearly connected to its "big"

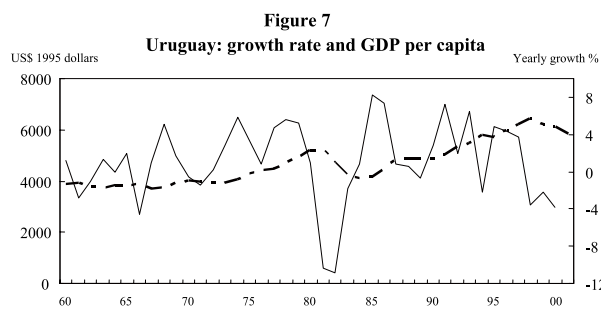
neighbors; Argentina and Brazil, has almost doubled its input per capita over four decades. However, in the last twenty years the income level has remained stagnated at 1980 levels, as can be seen in figure 6. This means that the outstanding growth the country experienced in the seventies made it possible to attain the current GDP per capita level.



The last four decades can be neatly divided into two twenty-year periods, where the turning point is the 1982 international debt crisis. Before the eighties, this country recorded positive growth for almost every year, except for two years (1961 and 1965), this remarkable economic performance was sustained and accelerated during the seventies. After the 1982 crisis, the hiccupping growth rates were mostly negative and the GDP per capita stayed at the same level for approximately 20 years, not even recovering the level it reached before the crisis.

**Uruguay**

Southern cone countries have the highest GDP per capita level in Latin America, of which Argentina’s is at the top. Along with almost every regional country, Uruguay was also severely affected by the 1982 financial crisis and since then its growth rate has become more persistently erratic than ever.

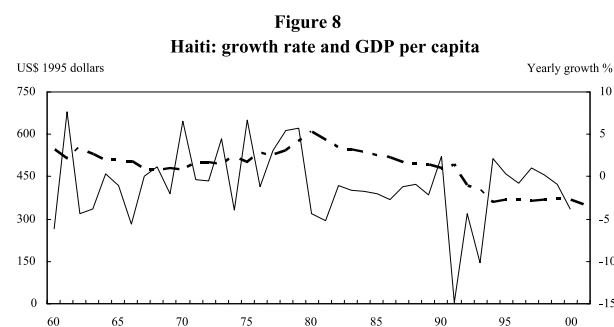


Uruguay economic model in the past has been closely linked to its major neighbor, Argentina. The implementation of pure orthodox programs during military junta administration and the early simultaneous

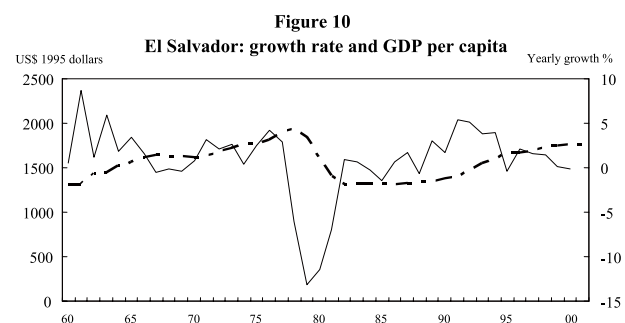
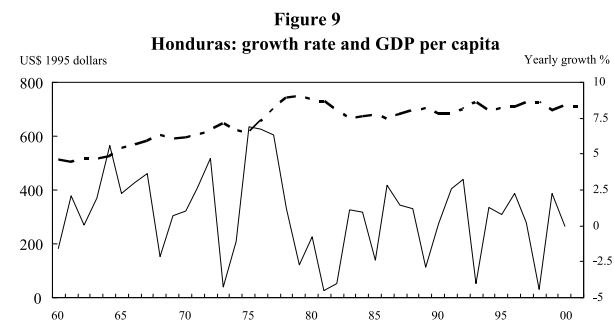
trade and capital liberalization are common features of these two countries.

**The other Central American and Caribbean countries**

This group is characterized, besides its geographical location – either Central American or Caribbean countries – by low GDP per capita, poor economic performance, growth rate volatility and in some cases the impossibility of recovering from the effects of the 1980s crisis. In several Central American and Caribbean economies the income level remains far from the level observed before the crisis.



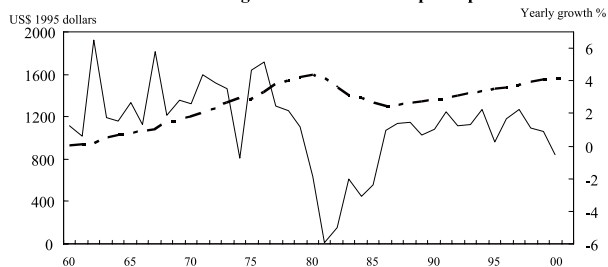
Another characteristic of these countries has been the various social and political problems that are affected the economies. Guerrilla, terrorism, civil war and rebellious movements against the current administrations have become familiar issues in these countries.



By looking at figures 8 to 12, the meager and erratic growth rates in these countries which appear to be the

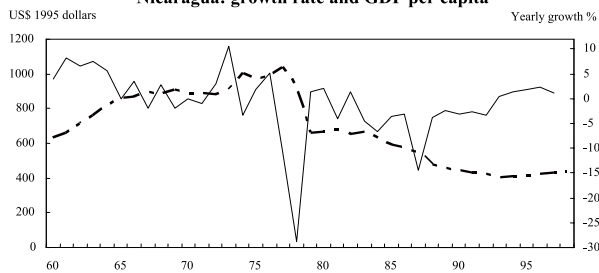
result of an unfortunate combination of poor policies and negative socio-economic initial conditions, marred also by political instability is evident.

**Figure 11**  
Guatemala: growth rate and GDP per capita



More worrisome is the situation of Haiti and Nicaragua whose respective GDPs show a continuous and decreasing trend, without any recovering signals. These two countries have suffered three consecutive decades of negative growth, basically due to economic mismanagement and political turmoil.

**Figure 12**  
Nicaragua: growth rate and GDP per capita



While Guatemala economic growth rates have been positive since the 1990s, El Salvador and Honduras rates have been very erratic, but in any case they have supported an increase in the GDP per capita, whose trends exhibit a slow-pace growth.

### Conclusions

Certain Latin American economies have not systematically implemented comprehensive economic reforms and strict fiscal discipline complemented with monetary measures. These countries' economic policies either focused on stabilizing the main macro variables or introducing structural reforms in specific sectors.

Concurrently with Chile and Mexico, Bolivia had the foresight to implement early reforms as a response to a serious economic crisis that led to political instability in the first half of the eighties when a succession of short and

alternate administrations took office. Drastic orthodox economic measures were imposed on the economy and Bolivia remains a successful story of hyperinflation abatement and macroeconomic stabilization.

Costa Rica and the Dominican Republic, due to their respective economic performances, have registered outstanding increases in their GDP per capita. In a 40 year span of time, Costa Rica has almost doubled its output level, surpassing Mexico and Venezuela's income and reaching fifth place only after the Southern cone countries and Brazil. On the other hand, the Dominican Republic during the entire decade of the nineties registered positive growth rates which made it possible to almost double per capita income level in one decade.

In the case of Ecuador, a net-oil exporter economy and therefore exposed to external shocks, mainly due to international commodity prices, the GDP per capita has remained the same for almost two decades with no major change. For Panama, the nineties has been a decade of recovery, after a sharp decrease registered in the second half of the eighties. A singularity of this economy that can be contrasted with the other economies is the smoothness of its growth rate trend due to limited volatility, especially during the nineties.

The Paraguayan and Uruguayan economies closely connected to their "big" neighbors, Argentina and Brazil, registered opposite growth patterns, with the 1982 crisis as a turning point. While Paraguay has grown considerably in the first half of the last 40 years, Uruguay's growth has been concentrated in the latter half of the 20th century.

Central American or Caribbean economies such as El Salvador, Guatemala, Haiti, Honduras and Nicaragua are characterized by low GDP per capital, poor economic performance, growth rate volatility and in some cases an inability to recover and attain an income level similar to the pre-1982 crisis level. This inability to recover appears to be the result of an unfortunate combination of economic mismanagement and negative socio-economic conditions, marred also by political instability.

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## Las economías medianas y pequeñas en América Latina y su desempeño en los noventa

Ana Sueyoshi

A pesar de que la década de los noventa ha sido considerada como la década de las reformas estructurales y de los paquetes de estabilización macroeconómica, se puede apreciar un grupo de países en los que dichas medidas fueron adoptadas de manera parcial, ya sea porque sólo abarcó ciertos sectores de la economía o porque se concentró básicamente en políticas de ajuste macroeconómico o en acciones de reforma estructural, pero no en los dos simultáneamente. Este artículo tiene como propósito señalar el comportamiento económico de aquellos países de la región que al no pertenecer a ninguna de las categorías ofrecidas en artículos anteriores, quedaron excluidas del agrupamiento realizado sobre la base de prontitud y rapidez de implementación de medidas de ajuste macroeconómico o estructural.

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