

Mexico at Crossroads

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Where Mexico is today

- Even in absolute terms, basically stuck at the level achieved in the early 1980s, but in relative terms falling behind
- Compared to the US
 - Per capita income 36% in 1981; 25% in 2006
- Compared to Korea
 - Mexico 3.4 times higher in 1961 (Korea \$82; Mexico \$279)
 - Korea 2.2 times higher in 2008 (Korea \$21,530, Mexico \$9,980)

Development Orthodoxy in Mexico since the mid-1980s

- Macroeconomic stability
- Free trade (NAFTA)
- No regulation for foreign investment, especially foreign direct investment (NAFTA)
- Respect for intellectual property rights (NAFTA)
- Social policy for the weakest (Oportunidad)

The Results

- Low inflation but a major financial crisis (1994) and a lot of fluctuations in growth rate
- Low growth (growth rate of per capita income in during 1955-82 import substitution period 3.1%; some boost after the NAFTA – 2.5% for 1994-2000; close 0% for 2000-9)
- Premature de-industrialisation
- Weak productivity growth (3.2% for 1940-81; 0.7% for 1990-2006)
- FDI increased right after the NAFTA, but has failed to upgrade the overall economy and a lot of it is now leaving for lower-wage countries.
- Increased vulnerability (one of the slowest growing economies in the world in 2009, despite not having a home-grown financial crisis)
- Persistence of inequality

The Future in the Past?

- Mexico has got what it can out of the neo-liberal orthodoxy - which is very little.
- Without completely over-turning the orthodoxy about economic development, Mexico's future is bleak.
- In thinking about the future, it would be helpful to look at the past more closely – both Mexico's own past and the past of the more successful countries.
- Mexico had superior economic performances before neo-liberalism.
- In particular, contrary to the common belief, history shows us that no country has become rich through neo-liberal policies.





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THE UNITED STATES OF AMERICA

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We the People

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SERIES 2004 A

Anna Escobedo Cabral
Treasurer of the United States

John W. Snow
Secretary of the Treasury

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TEN

HAMILTON

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“Were the Americans, either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness.”

(Adam Smith, *The Wealth of Nations*, 1776, the 1937 Random House edition, pp. 347-8).

Real History of Capitalism - Trade Policy

- All of today's rich countries, except for the Netherlands and (pre-WWI) Switzerland used protectionism for substantial periods.
- Britain and USA were the most protectionist economies in the world in their catch-up periods.
- Germany, France, and Japan – the supposed homes of protectionism – were much less protectionist than Britain or the USA.
- Even in the post-WWII period, protection was quite high until the 1960s.

Table 1. Average Tariff Rates on Manufactured Products for Selected Developed Countries in Their Early Stages of Development
(weighted average; in percentages of value)¹

	18202	18752	1913	1925	1931	1950
Austria ³	R	15-20	18	16	24	18
Belgium ⁴	6-8	9-10	9	15	14	11
Canada ⁵	5	15	n.a.	23	28	17
Denmark	25-35	15-20	14	10	n.a.	3
France	R	12-15	20	21	30	18
Germany ⁶	8-12	4-6	13	20	21	26
Italy	n.a.	8-10	18	22	46	25
Japan ⁷	R	5	30	n.a.	n.a.	n.a.
Netherlands ⁴	6-8	3-5	4	6	n.a.	11
Russia	R	15-20	84	R	R	R
Spain	R	15-20	41	41	63	n.a.
Sweden	R	3-5	20	16	21	9
Switzerland	8-12	4-6	9	14	19	n.a.
United Kingdom	45-55	0	0	5	n.a.	23
United States	35-45	40-50	44	37	48	14

Real History of Capitalism

- Regulation of FDI

- US (19th century)
 - regulated FDI in finance, shipping, mining and logging.
 - especially in banking; only American citizens could become directors in a national (as opposed to state) bank and foreign shareholders could not vote in AGMs
- Japan (Korea and Taiwan to a lesser extent)
 - virtually banned foreign direct investment until the 1980s
- Finland
 - classified all firms with more than 20% foreign ownership as “dangerous enterprises”
 - no foreign bank branches until the early 1980s

Real History of Capitalism - Intellectual Property Rights

- Many countries explicitly allowed patenting of foreigners' inventions.
(Britain, the Netherlands, USA, France, Austria)
- In the 19th century, the Germans mass-produced fake 'Made in England' products.
- Switzerland (1907) and the Netherlands (1912) refused to protect patents until the early 20th century (Swiss pharmaceutical, Philips).
- The US refused to protect foreigners' copyrights until 1891 (refused to protect copyrights for materials printed abroad until 1988).

Real History of Capitalism - State Ownership

- Important in Germany (textile, steel) and Japan (steel, shipbuilding) in the early days
- Extensively used in France, Finland, Austria, Norway, Taiwan, and Singapore in the post-WWII period
 - Singapore: 22% of GDP (Singapore Airlines and others)
 - Taiwan: 16% of GDP
 - France: Renault, Alcatel, St. Gobain, Usinor, Thomson, Thales, Elf Aquitaine, Rhone-Poulenc
 - Other examples: POSCO (Korea), EMBAER (Brazil)

Real History of Capitalism

- Macroeconomic Policies

- Interest rates
 - Normal times: high interest rates in developing countries (8-12% in South Africa, Brazil since the mid-1990s) vs. low or negative interest rates in rich countries (-1% in Switzerland to 2.6% in Germany during 1960-73)
 - Crises: usurious rates in developing countries (Korea 30% to Indonesia 80% in 1998) vs. extremely low rates in rich countries (0% in Japan US to 3% in Europe – and falling)
- Budget deficits
 - Crises: surplus in developing countries (e.g., Korea: 1% of GDP surplus then 0.8% of GDP deficits in 1998) vs. deficits in rich countries (3% of GDP in Germany in 1991-95; 8% of GDP in Sweden in 1991-95; 12% of GDP likely in the US in 2009)

Kamenev

Leni
n

Trotsky



Lenin



Regulation

Market

Protection



Market



What is to be done? I

–Have a Strategy/Plan

- Need to have a strategy on which industries to promote and to provide targeted supports for those industries.
- Except at the most basic level, a country's specialisation is determined by deliberate choices (Japanese cars, Finnish phones)
- But can planning succeed?
 - Comprehensive central planning impossible
 - However, modern economies are planned to a very high degree – not only by the government ('indicative planning' of France and East Asia; SOE-led development of Austria and Finland; industrial policy of various types; R&D policy of the US) but also by private sector firms (Karl Marx, Herbert Simon)

What is to be done? II

– Target

- Does targeting work?
 - Many argue that industrial policy should be ‘general’, rather than ‘targeted’.
- *In a world with scarce resources*, targeting is inevitable.
 - No such thing as R&D subsidies that supports all industries equally or “general” engineers or infrastructure that benefit every industry.
- Moreover, it is not true that less targeted policies are necessarily better (cf. social policy)
- The question is not whether we should target, but on the optimal degree of targeting for each case.

What is to be done? III

– Maximise Technological Capability Accumulation

- Ultimately, what distinguishes the rich countries from the poorer ones is the differences in their technological capabilities (Germany vs. Mexico after the Second World War)
- Invest more in R&D (less than 0.5% of GDP vs. Finland 3.5%; Korea 3%; China 1.3%)
 - more public investments
 - Greater incentives for the large private sector firms
 - for SMEs incentives for joint-R&D by associations of SMEs, as well as more public R&D
- Require worker training for larger firms and demand that they also provide technical supports for the SMEs supplying them.

What is to be done? III (continued)

– Maximise Technological Capability Accumulation

- Reduce the protection of intellectual property rights
 - greater use of public interest provision
 - greater demand for information release
 - greater use of utility patents
- Regulate technology imports (e.g., screening for overly obsolete technologies, cap on technology licensing royalties)
- Put conditions on FDI regarding technology transfer, local contents, and exports restrictions (difficult due to the NAFTA)
- Promote exports, which increase exposure to better technologies and increase the foreign exchanges available for technology imports (direct export subsidies are banned, but export loan guarantees, marketing help, and support for meeting quality standards can be provided)

What is to be done? III

– Performance Measurement and Monitoring

- For any policy, performance targets should be clearly specified and the reporting requirements on them announced at the outset.
- The targets should be set in consultation with the business community.
- Targets need to be revised along the way, but too much flexibility should be avoided, as government flexibility can be abused by lobbying groups
- In industries where export is possible, export performance should be given a high status as a performance measure, as they are far less open to manipulation.
- Policy-makers need to pay more attention to the *trends* in performance indicators, rather than their absolute levels at any give point of time.

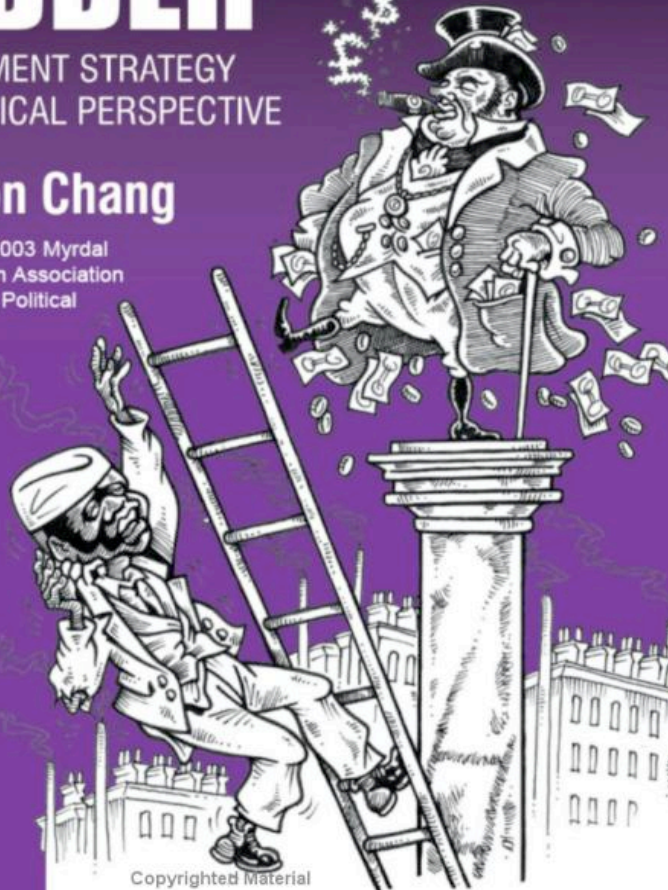
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DEVELOPMENT STRATEGY
IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

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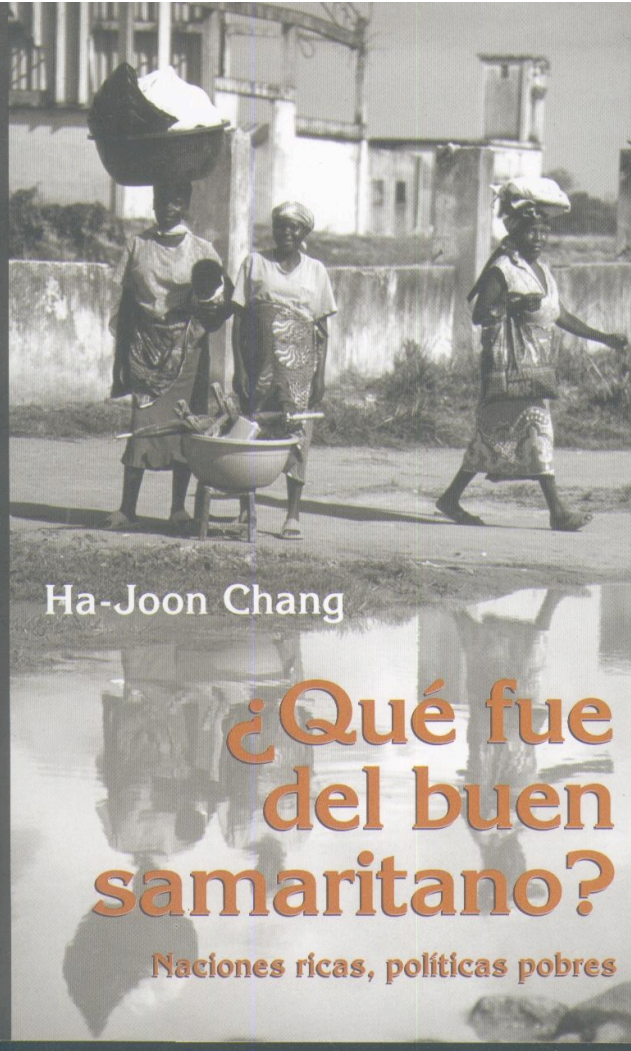


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THE GUILTY SECRETS
OF RICH NATIONS
& THE THREAT TO
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