

Commodities and Inequality: Economic Growth in Latin America

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An Interview with Cameron Parsons
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José Antonio Ocampo is director of the Economic and Political Development Concentration at the Committee on Global Thought at Columbia University. He has held numerous posts in both the United Nations and the Government of Colombia, most notably as United Nations Under-Secretary-General for Economic and Social Affairs and as the finance minister of Colombia.

Brown Journal of World Affairs: You have written extensively about the dramatic economic growth of many Latin American countries over the course of the past three decades. However, you have also said that a great deal of that growth was dependent upon high commodity prices, which have plummeted since 2008. What has been the broader impact of the fall in commodity prices on Latin American economies?

José Antonio Ocampo: My analysis of the Latin American boom of the last decade was based on the idea that all of the external factors were favorable. Latin America had high levels of remittances, exceptionally good external financing, booming international trade, and, as you rightly mentioned, booming commodity prices. In fact, it was the most significant commodity prices boom since the middle of the nineteenth century.

The global financial crisis caused these prices to fall dramatically, but they recovered quickly thanks to rampant Chinese demand for raw materials. The question for the next decade and onward will be whether China will be able to sustain demand and Latin American commodity prices. This is a giant question mark for not only Latin America but also the entire developing world because

commodity prices can be a very good engine of growth for developing countries.

Journal: Income distribution in Latin America has improved over the last decade. Economic inequality in Latin America used to be among the worst in the world, but that is now changing. To what do you attribute the decreasing gap between rich and poor? Is it more a function of market mechanisms, such as commodity booms, or good public policy?

Ocampo: This is still an ongoing debate. It is clear that there are some policy components that are part of the story—some more important than others. But in the end, I would say that the most important has been the improved quality of and access to public education.

For a long time, companies looked at Latin America and saw a scarcity of skills. There was increasing demand for skilled labor, but for a long time, companies couldn't find it in Latin America. Now, in the twentieth century, the long-term increase in educational levels has made it so that supply is rising to meet demand.

The other policy factor that plays into many discussions has been Latin America's efforts to solve the social problems associated with poverty. Policies such as conditional cash transfers have been useful for poverty alleviation even though the evidence shows that they may have only a small effect on economic distribution. Ultimately, cash transfers are too small in absolute magnitude to have an impact on distribution because they account for only 0.3 or 0.4 percent of GDP.

Journal: Overdependency on raw materials carries substantial risk for a developing economy—chiefly, the threat of economic shock due to a downturn in global markets. There is obviously a need to diversify Latin American economies away from a model based on the export of raw materials and to move toward creating value-added products. This process requires investment. Where do you believe the funds and technology to help make that transition happen will come from?

Ocampo: In order to compete internationally, you have to have higher levels of productivity and a strong technological base of production. This is where Latin America has lagged behind significantly—in terms of technological development vis-à-vis our competitors. In my view, these competitors are East Asia on the one hand and—very importantly—the natural resource-dependent, developed countries of the world on the other. Canada and Australia would be

prime examples.

But the technology will not come from abroad. That's a major challenge for domestic policy. Of course, foreign investors will bring some technology, but this is their own property. Corporations won't necessarily help to develop domestic innovation systems, which is the name generally given to these technological networks.

Journal: Shifting now to the World Trade Organization (WTO), you have been quite critical of its dual-standards vis-à-vis subsidies. For example, you suggest that corn subsidies are allowed in the Global North while they are explicitly outlawed in the Global South. What impact does this have on power relations in the global market?

Ocampo: As a negotiator in the Uruguay Round of debates, I pointed out that all of the subsidies that were prohibited by the WTO were used by developing countries, while all of the subsidies that were allowed were those used by developed countries. I still contend that this is more or less correct. The main subsidies developing countries used were export subsidies that are prohibited under the GATT [General Agreement on Tariffs and Trade]. On the other hand, the main subsidies used by developed nations—agricultural subsidies, science and technology subsidies, and regional subsidies—are allowed by the WTO. Now of course, you can say to the WTO, “Change your systems. Change your systems so that developing nations are also allowed to use those subsidies.” And I would say that this is partly what will have to be done. Latin American countries need to be able to compete on an equal playing field. Right now, they are not able to do that.

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Journal: What structural changes would you like to see the President of the World Bank Jim Yong Kim make during his tenure? You were, of course, a candidate for the position he now holds.

Ocampo: There are three sets of issues which bear addressing. The first set deals with the larger objectives of the Bank. Poverty alleviation must continue to be the main objective. The Bank must remember that even though most of the world's poor are now living in middle-income countries, the Bank has a responsibility to make sure that the poor who continue to live in these countries don't get left

behind. There is a great deal of pressure, especially from Europe, to get the Bank to focus only on the poorest of nations. However, it is crucial that it continue to work with and support the middle-income nations.


Secondly, the Bank should open itself up to other intellectual trends. The Bank has proposed a lot of ideas, but since the 1970s it has also been the great “hero” of market reforms. Gradually, it has started to move away from sweeping market reforms and has sought to devise new strategies. But broadly, the Bank has to be more open to capture different ideas that challenge the status quo and more accepting of other development models. It cannot just base its programs on one mode that exists on a diverse map of ideas. The Bank has to investigate and support the various development models that countries from the Global South are pursuing—even universal social policies such as education, health, and social security. Even if these policies run against its traditions, the Bank should not condemn them or, at the very least, not be an obstacle. In the end, nations are pursuing development, not institutions. The institutions are there to provide support.

Journal: What reforms would you like to see on the institutional side of the World Bank?

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Ocampo: I would like to see the World Bank become a forum for dialogue between developed and developing countries on how to restructure the global economy. This is something that I suggested during my campaign. The IMF tends to deal with the short-term issues of the global economy, but I would propose that the Bank be used to address longer-term matters such as trading

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systems, power imbalances, and demographic factors like migration and age structure. I would also like to see it used as a forum of equals. There are many long-term trends in the global economy that will impact developing nations and, in turn, developed ones. However, there is quite simply no place to discuss these issues as equals. The Bank must reform to increase the share, weight, and representation of developing nations, and also must better participate and coordinate with other multilateral institutions. As someone who was on the floor of the UN for more than 10 years, I can tell you that there is a basic problem in that the World Bank has a sense of superiority vis-à-vis the rest of the UN system. This doesn't allow for productive dialogue and exchange of ideas. 

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