

Mahbub ul Haq

Prospects of Human Development in Latin America

It is a great privilege to address this forum on the prospects of human development in Latin America. I would like to pay a sincere tribute to Governor Vicente Fox and Jim Garrison for taking the initiative to organise this Regional Forum. I firmly believe that the new development patterns in Latin America in the 21st century will have to be led by a great ferment of ideas. It is in that spirit that I would like to present some thoughts on future development strategies for Latin America.

Latin America is a leading region in the developing world today. Its real per capita income is more than twice the average for the developing world. Its Human Development Index is 0.824 compared to the average of 0.563 in the developing world, or 48 per cent higher. It possesses enormous human talent.

Yet Latin America has not lived up to its full development potential. I shall focus, therefore, on its obvious future potential, not on its past achievements. I hope that my observations are taken in their proper perspective. Honesty is a gift only friends can give.

One of the great mysteries of the last three decades is why East Asia beat Latin America in the race for economic development. In 1960, Latin America started ahead of East Asia (excluding China) in most indicators of development. The real GDP per capita (in PPP dollars) was \$ 2,138 in Latin America compared to \$ 869 in East Asia in 1960 --- which was about two and a half times that of East Asia. Yet, by 1993, Latin American per capita income was only one-half of East Asia, that is \$ 5,816 compared to \$ 11,088. What was the real reason that a region so far ahead of the industrializing tigers of East Asia fell so far behind? If any bets had to be placed on future development prospects by the economists of the world in 1960, they would have been squarely on Latin America since it started with a relatively high income level among developing countries; it was managing fairly robust growth rates in the 1960s; it had plenty of natural resources and human talent; and it had easy access to the vast markets of North America. What really went wrong?

It is my conviction that a major part of the explanation lies in the slow pace of human investment in Latin America which failed to nourish and sustain its economic growth. At the same time, the model of development in Latin America was elitist while it was egalitarian in East Asia; it was inward-looking in Latin America but outward-looking in East Asia; it was based on good governance in East Asia and absence of such governance in Latin America. We should not overdraw the contrast since there were many redeeming features in Latin American development but let me focus on four core development strategies which could help explain the sharp contrast in the actual pace of development of Latin America and East Asia.

Keynote address given by Dr. Mahbub ul Haq, President of the Human Development Centre, to the Regional Forum on Human Development in Guanajuato on 22 November 1996.

The first, and most important, component in these development strategies is the emphasis on education. Even in 1960, when East Asia's real per capita income was only 40 per cent of that in Latin America, it enjoyed a higher level of adult literacy rate and school enrolment. This gap in educational attainments has persisted in the last three decades so that, by 1990, adult literacy rate had reached a level of 98 per cent in East Asia compared to 85 per cent in Latin America and the Caribbean and combined school enrolment was 73 per cent in the former region compared to 62 per cent in the latter.

The strategy for educational investments was quite different in East Asia and Latin America. In East Asia, the emphasis was placed squarely on universal, high-quality primary education, accompanied by a largely self-financed university education system. Such emphasis was based on the clear recognition that the primary level had the highest rate of return (18 per cent), particularly female education. South Korea, Hong Kong, Thailand and Malaysia all spent nearly 70 per cent of their education budgets on basic education. This was in sharp contrast to the general experience in Latin America where higher education pre-empted a major part of the budgetary resources. For instance, Brazil gave 18 times more subsidy to a student in a university compared to a primary school student. And who went to these universities? According to a recent study, only 1 per cent of the university enrolment came from the bottom 20 per cent income group in society. In other words, the Latin American budgets subsidized the richer groups in society while public budgets in East Asia spread universal primary education to all the economic and social groups. It is no wonder, therefore, that East Asian economies built up a much larger and broader-based reservoir of human capital than did the Latin American societies.

In an important area, however, the educational strategies of East Asia and Latin America converged. This was the area of technical education. The secondary technical enrolment ratio is about the same in both the regions at 18 per cent.

The main lesson from East Asian experience is that Latin American public budgets should give priority to basic education, letting the private sector establish institutions of higher learning. Public funds must be spent for the human development of all the citizens, not for the benefit of a few. In addition, a great deal of emphasis should be given to the promotion of science and technology.

A second major difference between the East Asian and Latin American development strategies lies in their institutional reforms. East Asian countries undertook many basic reforms which allowed governments to protect domestic firms without falling prey to widespread rent seeking; to promote industrial sectors selectively without becoming permanent crutches for failed industries; to provide extensive subsidies for the establishment and growth of new industries without allowing the civil service to become embroiled in corruption; and to allow the country to reap the rewards of high economic growth without allowing the elite to accumulate all the gains. In other words, the pattern of development was fairly egalitarian. On the other hand, in most Latin American countries, development has been based on feudal and elitist structures of power. The highest income disparity in the

world is in Brazil today --- 32:1 between the top and bottom 20 per cent of the population. Compare this to a ratio of 6:1 in South Korea and 10:1 in Singapore.

There is a major contrast in the experience of East Asia and Latin America in the field of institutional reforms. The most important factors explaining East Asia's high and equitable growth are land reforms and an equitable credit system. Sweeping land reforms created a class of well-motivated small land owners who were supported by government programmes of credit, rural infrastructure, agricultural research and extension services. Credit was made available to small entrepreneurs through government-run postal saving systems in South Korea, Malaysia, Singapore and Taiwan --- on the pattern of the successful experience in Japan.

On the other hand, most Latin American countries have a very high degree of concentration in the ownership of land and credit. For example, land distribution is extremely skewed in favour of a small feudal class in several Latin American countries. The Gini-coefficient of land distribution, which measures inequality of land ownership, is as high as 0.94 in Paraguay, 0.86 in Brazil, 0.84 in Panama and 0.70 in Colombia, compared to 0.30 in South Korea. Much of the credit from the formal banking system is pre-empted by a few affluent groups. Only recently, some attention is beginning to be given to new credit institutions to reach the poor, on the pattern of the Grameen Bank in Bangladesh.

The third major difference in the development strategies of Latin America and East Asia lies in their inward and outward looking orientation respectively. East Asia took its chance on the international markets. Its growing human capital and increasing access to technological skills enabled East Asia to manufacture low-tech consumer goods for world markets and to compete aggressively on the basis of low wages, high productivity, and an enlightened export policy. The results have been nothing short of spectacular. Exports of East Asia increased by 8 to 10 per cent per annum, increasing the share of East Asia in total world exports from 8 per cent in 1965 to over 20 per cent by 1994. This rapid export expansion also fueled an average GNP growth rate of 8 per cent a year, transforming the economies of East Asia. In other words, East Asia took full advantage of the rapid globalization of the world economy.

Latin American countries failed to exploit their advantage despite their nearness to the affluent markets of North America. I have often wondered why East Asian countries (particularly Taiwan, Hong Kong, Singapore, South Korea and China) managed to flood the US market with their consumer goods exports --- from cameras to transistors to souvenirs --- when Latin American countries failed to penetrate this market despite their tremendous advantage in being next door neighbours. The explanation lies in the narrow, protectionist, import-substitution strategies of Latin American countries in their initial phase of development. There has been some opening up recently after the conclusion of the NAFTA agreement and efforts to include other Latin American countries, besides Mexico, in such a liberal trading arrangement with the US and Canada. Despite these belated efforts, Latin America still exports only 10 per cent of its GNP compared to 52 per cent by East Asia (excluding China). Latin America has a long way to go to take full advantage of the

current trend towards globalization. And in order to exploit the benefits of global markets, it will have to rapidly expand its base of human capital as well as liberalize its trade policies.

Let me digress here a little. There have been two schools of thought in the developing world regarding globalization of the world economy. One school of thought regards it as a unique opportunity which enables the developing countries to catch up with the developed world by training their low-wage labour force and exploiting their export potential. There is another school of thought that argues that global markets will only exploit poor developing countries --- particularly, there will be exploitation by powerful multinationals --- so that developing countries should turn inwards and pursue more autarkic policies, or at most South-South trade. There have been many writings about the centre and the periphery --- with the rich centre always exploiting the poor periphery. Even my good friend, the late Raul Prebisch -- the most outstanding economist from the Third World in my view --- contributed to such a thesis of centre and the periphery which has had a great influence over the policy makers and intellectuals of Latin America. As a result, globalization was often viewed with suspicion in Latin America, even as a threat, while it was viewed as an opportunity in East Asia. We are all slaves to some intellectual thought. And the contrasting experiences of East Asia and Latin America are before us --- resulting, in my judgment, from two contrasting philosophies of development.

A fourth difference in the core development strategies of Latin America and East Asia lies in the nature and quality of their governance. East Asia has been able to evolve a skillful nexus between the state, the bureaucracy and the big business. It has relied on a capable meritocracy. There has been very close collaboration between the public and the private sectors --- not tension or mutual suspicions but sharing of responsibilities. Such a détente and cooperation between public and private sectors has yet to be evolved in many Latin American countries.

Let me make it clear that I am extremely bullish on the development prospects of Latin America in the 21st century. The winds of change are already sweeping across Latin America. This Regional Forum is only one example of the intellectual ferment that is overtaking this promising continent.

If Latin American countries are to take full advantage of their undoubted development potential, they must review their current models of development. The new models must ensure that development is woven around people, not people around development. They must start with human beings --- all human beings, both men and women, of all ethnic origins --- as the real wealth of their nations, and invest handsomely in enhancing their human capabilities. This is what will enable their people to participate in market opportunities. At the same time, they must regard globalization as a unique opportunity to leapfrog several decades of development and they must open up their economies at a rapid pace. But more than anything less, they need a smooth transition to a less elitist and a more egalitarian model of development. Benefits of economic growth must reach the poor, and not be hijacked only by the rich. Land and credit reforms may become

inevitable in many Latin American countries if egalitarian models of human development are to be designed.

It is a matter of great satisfaction that many Latin American countries are already thinking along these lines. Several are preparing comprehensive national human development strategies. For instance, human development thinking has shaped the four-year national development plan of Colombia, called "El Salto Social", or the Social Deal, which was launched in 1994. The plan contains strong and explicit commitments to the concept of sustainable human development --- not only through attention to environmental aspects, but through the government's intention to extend the benefits of development to everyone in society. The plan aims to increase social spending by 50 per cent and to double the allocations for science and technology. As Colombia embarks on the road to sustainable human development, several other Latin American countries are also beginning to pursue similar thinking, particularly Mexico, Costa Rica and Bolivia. Bolivia has even established a super-ministry of human development and a super-ministry of sustainable development, and the President of Bolivia has instructed all ministries to take their lead from a people-centred development model.

The international agencies are also beginning to support human development efforts in Latin America, particularly the UN system, the World Bank and the Inter-American Development Bank (IDB). In fact, IDB is now earmarking about one-half of its assistance for social action programmes in Latin America.

Let me end my presentation with three specific suggestions to the policy makers of Latin America.

First, all countries of Latin America should commit themselves to the preparation of comprehensive human development strategies within the next two years. They can learn a great deal from the experience of about 45 countries which have already undertaken such an exercise. They can also obtain technical assistance from UNDP for the preparation of their human development plans. Such plans must, however, be nationally-owned, not externally-engineered.

Second, a regional Human Development Centre should be set up in Latin America -- maybe in Guanajuato as a result of this Regional Forum initiative. This centre should prepare each year an independent, professional report on Human Development in Latin America. Let me mention that our Human Development Centre in Pakistan is already preparing such a report for South Asia which will be published in early 1997 by the Oxford University Press and which, we hope, will greatly influence the thinking of policy makers and civil society. Let me say very candidly, however, that any such report will be a worthwhile exercise only if it is fiercely independent and combines the best elements of courage and wisdom in its preparation.

Third, I would invite Latin American thinkers to start a whole new intellectual ferment in the field of human development. Many of us admired the intellectual excitement that emerged out of ECLA under the leadership of Raul Prebisch and Enrique Iglesias. There is no substitute for new ideas. Ideas begin revolutions. What we need today is not only thinking about human development in governments' planning and finance ministries and a few seminars/conferences on this theme from time to time --- valuable as they are. We need much more. We need university chairs on human development; we need policy think tanks in each country; we need a whole new movement by the civil society. I am glad that the first university chair on human development has been set up in this very region by Colombia.

Let me conclude with a sincere tribute. I believe that Latin America has produced some of the finest economists and policy makers in the world. From afar, we have often admired their vision and their intellectual sweep. I feel that they now face their greatest challenge: to usher Latin America into the 21st century with new models of development. I am sure that they are equal to this task. And we shall all warmly applaud them and learn from their thinking and their experience as people finally move to centre stage in the next phase of Latin American development.