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How Do Latin Americans Think About the Economic Reforms of the 1990s?

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1. Introduction*

In this paper the results of a series of standardized interviews of experts on their evaluation of economic reforms of the 1990s in Latin America will be presented. The experts are politicians, economists, entrepreneurs and representatives of trade unions from all major countries in Latin America.[1] Additionally, there are some respondents originating from the USA and Canada. The number of questionnaires that have been distributed between October 1998 and December 2000 is 865, the number of respondents is 351. From these, 30 could not be classified and were eliminated. So the final number of answers included in the data is 321.

The general idea of the investigation is to analyze the data for countries and different types of respondents separately. The respondents have been classified according to the interest group approach (new political economy). The data is also classified according to the countries' participation in preferential trade agreements.[2]

The answers should be indicative concerning the perception of the reform process in Latin America from different political, social and economic perspectives and from people (interest groups) which are supposed to be affected differently from structural change caused by the reforms.

Due to scarce response from some groups in Brazil and Mexico (entrepreneurs in both and labor in Brazil) the data set does not allow to break down the answers to any single country or category. Nevertheless, there are some interesting features to be found in the remaining set which will be presented in this paper. Occasional observations on the country level will be added whenever possible. It should also be mentioned that the answers might be biased by the severe international economic turbulences that have affected most Latin American countries during the research period. Also the answers might not be representative in some of the countries due to the deficits mentioned above.

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[1] Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Guatemala, Peru, Uruguay and Venezuela.

[2] The questionnaire has also been extended to capture this regionalization experience. The analysis will be presented in a separate paper, however.

The paper is organized in the following way: in the next section I shall begin with some general remarks on the process of economic liberalization during the last decade in Latin America. Subsequently, the potentially critical aspects of these policies will be discussed. In the third chapter the results of the questionnaire will be presented, and, finally, some conclusions will be drawn.

2. Latin America on its way from Import Substitution to Economic Openness

2.1 Growth experience under the reform policies

Latin America underwent a quite extended period of import substitution which was partly enforced on the region when international trade broke down after the Great Depression, and it partly became a distinct strategy after World War II. While some small countries like Chile, Peru or Guatemala never managed to establish a viable industrial sector under this regime, Brazil and Mexico had initiated a quite successful first period of import substitution before the model ran out of steam in the 70s, and eventually collapsed during the Latin American debt crisis of the 80s.

After Chile, which was a forerunner in the process of opening up, Mexico was the first important economic reformer, starting its change of strategy during the second half of the 80s. Brazil, the leading economic power in South America is one of the very late reformers which severely began to redirect its views on international economic relations only after 1993.

During the 1990s and under the new economic paradigm, growth recovered in nearly every country of the region. During the decade an average rate of 3.0% (after 1.4% in the 1980s, but 4.9% in the 70s) has been registered. A first major effort to relate the reviving rates of growth to the change of the economic regimes came from Edwards (1995). Edwards estimated the reform efforts (macroeconomic stability, trade policy reforms, incentive systems) of each Latin American country and classified the economies as early, recent and late reformers. He found that early reformers (Chile, Mexico and Bolivia) were those which had suffered most in terms of declining (and even negative) rates of growth of GDP during the 1980s. In turn, those doing relatively well during the debt crisis (Brazil) did not engage in (lasting) reform efforts early. Edwards also realized that the early (and recent) reformers had a better growth performance between 1989 and 1993 than the late reformers.

Preusse (1996) used the Edwards data to construct a combined reform indicator (macroeconomic reforms weighted 40%, trade policy and growth policy reforms 30% each) for nine Latin American economies and found evidence of a positive link between reform efforts and growth performance from 1992 - 1994.

Since the reforms have been carried on after 1993 in most countries it is interesting to see whether this link still holds during recent years and after a longer period of time. Paunovic (2000) draws on an indicator elaborated by Morley, Machado and Pettinato (1999). This indicator is quite similar to the one presented above but captures reforms until 1995. He correlates this reform index with the growth performance of 17 countries during the 1990s and finds "that the reforms explain one third of the variation in growth " (correlation coefficient = 0.60, $R^2 = 0,36$) (Paunovic, 2000, 15).[3]

Paunovic based his examination on the Morley/Machado/Pettinato index but differentiated only between stabilization efforts and structural reforms. He then classified the 17 countries as strong, moderate and weak reformers in both areas. His classification criteria is the standard deviation from the average index. That is, countries ranging within one standard deviation from the mean are classified as moderate reformers (index value between 0.803 and 0.839). Those above 0.835 are strong reformers, those below 0.803 are weak reformers in the fields of macroeconomic and/or structural policies.

Table 1

Classification of reform levels

Micro-economic / **Macro-economic**	**strong**	**moderate**	**weak**
strong	strong reformers	moderately strong reformers	
moderate	moderately strong reformers	moderate reformers	moderately weak reformers
weak		moderately weak reformers	weak reformers

[3] Paunovic also mentions other studies which found a positive indication of the reform policies on economic growth in Latin America

Based on this classification one can easily construct a scale of reforms according to *table 1*.

In this matrix we observe reformers which have a strong performance in both macro-economic and structural adjustment. These will be called "strong reformers". A second category of countries exhibits a strong performance in one area but a moderate one in the other. Countries belonging to this category will be called "moderately strong reformers". The third category are "moderate reformers", having a moderate performance in both areas. Similarly, "moderately weak reformers" underwent moderate reforms in one and weak reforms in the other area, and "weak reformers" have weak performances in both.

Table 2 employs this classification (first column) in order to identify the countries' reform intensities (second column) in relation to their growth performances in the 90s (third column). Again, we find a remarkable difference in the growth performance of the different reform categories which ranges from 5.1% for strong reformers to 2.4% for weak reformers.[4] To put it more clearly I compare the average of the growth rates of the reform categories *one + two* and *four + five*. From this comparison one can conclude, that on average the "strong" and "moderately strong reformers" have realized an average rate of growth of GDP of 4.5% while the "moderately weak" and "weak" reformers only obtained 2.1%. The intermediate category of "moderate" reformers obtains an average growth of 3.2%.

An important point to remember is that the GDP growth rates of the 90s include the negative effects of the Asian crisis which drowned Latin America into a period of severe depression between 1998 and 1999. Nevertheless, the relative growth performance of strong and weak reformers remained unaffected. That means, that the reform countries, while also severely hit by the crises, did not suffer more in relative terms than the weak reformers. It is also worth noting that the new figures are quite similar to those presented in Preusse (1996). One important exception is Colombia which fell back significantly in the second half of the decade, in both reform efforts and growth performance.

[4] The 1.7% average growth of the economies in the "moderately weak" category is due to Jamaica, which has an average rate of growth of 0.0 for the whole decade.

Table 2

Intensity of Economic Reforms in Latin America of the 1990s and Rates of Growth of GDP

<table>
<tr><th>Intensity[1] of Reforms</th><th>Countries[2]</th><th colspan="2">Average Growth Performance (1991 - 1999)</th><th>Countries covered by the questionnaire</th></tr>
<tr><td>strong</td><td>Argentina
Chile
Peru
Dominican Republic</td><td>5,1</td><td rowspan="2">4,5</td><td>Argentina
Chile
Peru</td></tr>
<tr><td>Moderately strong</td><td>Bolivia
Uruguay
El Salvador
Costa Rica</td><td>3,9</td><td>Uruguay</td></tr>
<tr><td>Moderate</td><td>Guatemala
Mexico
Paraguay</td><td colspan="2">3,2</td><td>Guatemala
Mexico</td></tr>
<tr><td>Moderately weak</td><td>Brazil
Colombia
Jamaica</td><td>1,7</td><td rowspan="2">2,1</td><td>Brazil
Colombia</td></tr>
<tr><td>Weak</td><td>Ecuador
Honduras
Venezuela</td><td>2,4</td><td>Venezuela</td></tr>
</table>

[1] Classification following the Morley/Machado/Pettinato (1999) index, which combines two sub-indexes of macroeconomic and structural reforms (as of 1995) which indicate three degrees of reform intensity: strong, moderate, weak. "Strong" in the table means that both sub-indexes reveal strong reforms. "Moderately strong" means that one index reveals strong reforms, the other one moderate reforms etc.
[2] Classification and rates of growth according to Paunovic (2000).

To sum it up there appears to be increasing evidence of a strongly positive correlation between growth performance and reform efforts in Latin America in the 90s. This evidence even holds during the recent economic downturn which has affected all Latin American economies (except Mexico) and suggests that the reforms should be pushed forward in all countries and that they should be intensified in those where the reform deficits are the strongest.

2.2 Determinants of the public perception of the reforms

This is a straight forward conclusion based on economic rationale and derived from an analysis of GDP performance. Public opinion may be different, however. The basic point is that the dramatic structural changes in the region have had severe distributional consequences with winners and losers alike. The losers in particular may oppose the opening-up process and undermine the political support for ongoing reforms.

In order to get an idea of the potentially critical aspects of the reforms and their consequences for public perceptions of the new policies consider the following aspects:

1. People might compare the present economic performance of their country with that of the 60s and 70s, when very high growth rates of GDP in Brazil and Mexico pushed up the overall growth rate for the whole of Latin America to 4.9% between 1951 and 1980. This is clearly above the average post reform level of 3.4% in the 1990s. A prominent conclusion from this comparison is that the import substitution (IS) model of the past has been much more successful than the new open market regime and should therefore be revitalized.

   This conclusion, of course, rests on the implicit assumption that the IS model would perform equally well in the present as in the past, a possibility that even benign critics of the import substitution model would deny. The basic argument against turning back to import substitution is the growing conviction that this model is only valid during a limited start up period (if at all) which definitely has been exhausted in Latin America.[5] Following these critics of the import substitution strategy, it is misleading to compare the growth performance in the reform economies with the hypergrowth period in Brazil and Mexico in the 60s and 70s. Nevertheless, public opinion on the merits of the present reform agenda might

[5] A popular date often presented to determine the end of the IS-era is the beginning of the Latin American debt crisis (1982). However, many observers would emphasize that the debt crisis has in fact been no more than the (visible) final stage in a process of economic destruction lasting for years. During this process, many Latin American governments employed ill advised economic policies to support the old regimes instead of changing strategy under consideration of the new national and international constellations.

still be biased because the glorious days of import substitution are used as a benchmark.

2. The reforms might lend support to euphoric expectations about the future because the first steps are easier to implement and were often initiated during a period of severe economic depression. Thus, a sudden rise in the growth rate of GDP can be observed to happen quite often right after the reform program has been established. This high growth performance is difficult to sustain, when the costly period of restructuring really begins (Preusse, 2001). Thus, while the collective memory of the true deficits of the old regime vanishes, the prospects for future economic performance under the new regime diminish. As a result, the perceived balance of the benefits and costs of the reform erodes.

3. Open economies may use the world market as a stabilizing mechanism in the case of a regional economic downturn. However, they are also more vulnerable to negative external shocks themselves. While the stabilizing effect of the world market is not so easily recognized the external shock is! Thus, when there is a concentration of negative shocks during the transitional phase (as it has been the case in Latin America in the second half of the 90s) the experience with the reforms might be biased and people will underestimate its positive effects.

4. Increasing growth rates of GDP in the reform economies have been accompanied by adverse distributional effects. Thus, Gini coefficients rose in nearly every Latin American country during the 1980 and 90s and rising income in the 90s was not enough to regain the pre-crisis level for a large part of the population. Again, there is a suspicion that many people in Latin America do not see the links adequately, which exist between the distortions produced by the old regime and the negative distributional effects taking place thereafter.[6]

5. Closely related to the problems involved in accepting the new regime because of its perceived negative effects on the distribution of income and wealth is the fact that opening up to the international market after an extended period of im-

[6] To be sure, high and rising Gini-coefficients have been observed throughout the era of import substitution, too.

port protection inevitably enforces a re-organization of the industrial structure according to comparative advantage and this will breed winners and losers.

While the arguments under points one to four are emphasizing the potential ímpact of asymmetric information or even bounded rationality in the public perception of structural adjustment, the fifth argument is at the core of the economic problems arising from any transformation towards an open market system, and it seems to be particularly important in the Latin American context. Therefore, it will be helpful to elaborate on this point in some more depth.[7]

Start considering the problem arising from a change from IS to export orientation in the light of conventional (neo-classical) trade theory. Then, opening up will initiate a change in the structure of industry and trade according to comparative advantage. This re-allocation of economic activities will enhance efficiency and provide the basis for lasting economic growth (gains from trade). In that way, opening up to the international market is not a zero-sum game but will increase welfare for the society as a whole. This conclusion is not disputable at all. What is disputable, however, is the (implicit) claim that all members of society stand to gain from trade liberalization. Neo-classical theory rules out any loser by assuming that a pareto superior situation can always be established if compensation is paid by the respective winners.

But compensation of losers is a frequently (if not generally) neglected aspect of the management of structural change. It must, therefore, be recognized that potential losers will tend to oppose reforms which are against their (perceived) interest[8], and this opposition will be the stronger the higher the adjustment costs are in the short and medium run.

The expected change of relative (income) positions is analyzed in more detail in the Stolper-Samuelson theorem (SS theorem). According to this theorem a rise in the price of one of two goods (or bundles of goods) favors the factor of production which is used intensively in the production of this good. Suppose, in an import substituting

[7] The sensitivity of many Latin Americans with respect to the distribution of income and wealth is not surprising due to the present state of affairs. However, it would be superficial to blame just economics for this situation.

[8] It is important to note that such a behavior is likely in this scenario despite the fact, that the open regime, by producing additional growth, will also improve the situation of the losers in the long run.

economy a bundle of exportables and a bundle of import competing products are produced. Then, lowering protection means that the price of the bundle of exportables will rise (relatively) when the price of the import competing bundle on the local market falls. Thus, if the exportables are labor intensive, labor will gain from this type of structural change and the functional distribution of income will improve. In Latin America this approach has some intuitive appeal. After the extended period of import substitution the scope for change from relatively capital intensive (but disadvantaged) to labor intensive industries (which supposedly have a comparative advantage on the world market) should be wide. Thus, the gains for labor from the SS type of adjustment should also be expected to be high.

Yet, there are two distinct features of most Latin American economies which might diminish the effective scope for adjustment suggested by the SS model:

1. Resource-rich LDCs like those in Latin America use to have relatively high wage-rental ratios as compared to resource-poor LDCs at a similar stage of economic development (Krueger, 1977). Consequently, comparative advantage in labor intensive activities is less pronounced in these countries and opening up to the world market may bring a less significant shift towards labor intensive industries.

2. The SS theorem is partly not applicable to the Latin American situation because it is based on the assumption that the economy has one single wage rate (and that is the one for unskilled labor). In Latin America, in turn, and especially in the more advanced emerging markets, we have a considerable amount of skilled labor. These workers are paid a "skilled" wage rate that is significantly above the wage rate for unskilled labor, and they are concentrated in inefficient (import substituting) industries which will have to adjust under the new regime.

   Thus, it is the relatively well paid skilled labor force that will be hurt from trade liberalization and the subsequent change to labor intensive industries: these people might in fact be forced to leave the high wage sector and (if lucky) will have to pick up a lower wage job in the newly expanding export sector. Since these people are both well organized and able to defend their particular interest the opposition against this type of structural adjustment must be expected to be strong.

Resistance to change would even increase if the mobility of capital is also limited. This situation has already been analyzed in the so called Cairnes model and was elaborated by Mussa, Neary and others.[9] In these models, capital is sector specific and absolutely immobile between sectors. Consequently, it is not only labor which opposes change but capital as well and both unify to lobby for extended protection.

Under these conditions, resistance to the type of change suggested by the conventional SS process may be effectively blocked. That means, that either the whole reform project will eventually fail or entirely new lines of adjustment to trade liberalization must be detected. In particular, the negatively affected industries (with capital and labor forming a strong coalition) will argue that they are prepared to upgrade along the existing lines of production in order to survive in the world market.[10] To reach this goal they will most certainly claim a new period of adjustment assistance.

Leaving aside the apparent threat of this strategy (that is, it may just open up another round of import substitution) change by upgrading as an alternative to change according to the SS theorem would also alter the balance between winners and losers of trade liberalization. *First*, export expansion would be less labor intensive and, therefore, would not cause a significant change in the functional distribution of income, if any. Also, there would be less pressure on industrial wages so that the resistance to change which has to be expected from the skilled part of the labor force will be smaller. *Second*, because the upgrading process aims at the development of efficient lines of production in more sophisticated industries, it will probably need more time than the SS process. Thus, it will not attract much new labor, both because industrial (export) expansion will be slower and the existing production facilities will tend to absorb less additional labor. An additional threat to rapid industrial development under the strategy derives from the fact, that technological upgrading must be accompanied by skill expansion (and basic education). Since this is a time consuming process, scarcity of the adequately trained workers may hinder a rapid expansion

[9] See Cairnes (1874), Mussa (1982), Neary (1978).
[10] This strategy also reigns the MERCOSUR approach of intra-industrial specialization with MERCOSUR as a precondition for the eventual integration into the world market.

of capacity. Unskilled labor, in turn, will remain "unlimited" in supply and suppress wages.

Overall, it has to be concluded that the upgrading strategy as compared to the SS process will favor some of the high-skilled high wage workers in some sectors, and this will happen at the expense of those still to be dismissed within the upgrading industries and those already unemployed.

It is necessary at this point to emphasize the situation of labor (both employed and unemployed) under the two adjustment strategies, in order to highlight that quite different employment and wage scenarios must be envisaged under the up-grading and the SS strategy.[11]

Under the SS strategy adjustment would take place according to the present structure of comparative advantage. Thus, this strategy would create more labor intensive industries. These industries, in turn, would generate a maximum of new jobs albeit at the cost of a non-increasing or even lower level of real wages as long as large scale unemployment prevails. This strategy would have an ambiguous impact on the distribution of income. *First,* the functional distribution of income will change in favor of capital along the lines proposed by the famous Lewis model as long as unemployment prevails. *Second,* among labor we would expect both winners and losers. The rapid job expansion will be clearly in favor of the formerly unemployed and these are located at the lower end of the income scale, but skilled wages will remain under severe pressure (see above). Thus, this kind of job expansion will help to decrease wage inequality within the labor sector but it is against the interest of (employed) skilled labor.

Under the upgrading strategy the economy would proceed differently. The weakness of this strategy in terms of job creation has already been noted: in order to expand these industries sufficiently rapidly (that is, to generate full employment within reasonable time) the scarcity of skilled labor would have to be tackled forcefully. Taking into consideration the marode education systems in many Latin American countries

[11] Traditional models of neo-classical or classical trade theory are based on the assumption of full employment and, therefore, rule out this aspect.

and the long gestation period of investment in human capital it appears to be unlikely that this strategy would produce the required expansion of jobs in due time. The effect on the distribution of income, then, would be the following: the functional distribution of income would not move in favor of capital as in the SS strategy, because the scarcity of skilled labor would drive its real wage up. Unskilled labor, in turn, would be negatively affected twice: *first*, because the generation of jobs would be generally less than in the SS scenario, more workers would remain unemployed over a longer time period; *second*, as the pool of unskilled unemployed would remain larger, the pressure on real wages in this segment of the labor market would remain high and may even increase over time. At the same time wages of skilled labor would rise, and the distribution of income within the labor sector would become more pronounced.

To put it differently, the development along the upgrading path offers an immediate and more equal participation of skilled labor in the growing value added of (relatively) capital and technology intensive industries. This goes hand in hand with the stabilization of the prevailing dualistic structure of unemployment. That is, unemployment will stay at a relatively high level and a wage rate of unskilled labor will remain under pressure for a longer period of time.

For those who believe that the situation of unskilled labor is the core problem of Latin American economic development the SS approach would be clearly preferable. However, those who would gain from this strategy are exactly those who are without any sizable political power. It is unlikely, therefore, that they will be capable to articulate their interest[12] in a job maximizing strategy relative to those who are interested in quickly rising real (skilled) wages. Taking these political aspects of the reform process into consideration, a mixed strategy might be the most likely outcome. In this scenario, some new labor intensive industries may develop which largely take the burden of job expansion in the low wage sectors. At the same time the more sophisticated industries with a relatively low degree of international competitiveness will try to upgrade in order to survive in a more open market or simply fight for renewed protection.

Today, it is open to speculation which elements of this mixed process will ultimately succeed. One approach to get some more information on this question is to investigate on the political perception of the reforms from the point of view of different groups of society. This is what has been done under this project. The questionnaire on the reform policies has been elaborated to catch some of the more important elements of this political-economic scenario. The following groups will be considered:

- entrepreneurs and workers (representatives of trade unions). Each group had been asked to classify itself as belonging to a mainly exporting or mainly import competing industry. However, in the analysis this differentiation could not be employed, due to data insufficiency.
- politicians as those responsible for the reform strategy and (at least partially) inclined to social welfare,
- scholars who may be most clearly aware to the potentially positive effects of trade liberalization on consumer welfare and efficiency.

The questionnaire has been distributed in nine major Latin American economies which include countries of each reform category according to the classification of Paunovic (2000). These countries are listed on the right hand side of *table 2* (page 5). Argentina, Chile and Peru classify as strong reformers, Uruguay classifies as moderately strong reformer, Guatemala and Mexico are moderate reformers. Brazil and Colombia are moderately weak reformers and Venezuela is a plainly weak reformer.

With respect to the discussion of the particular positions of specific interest groups in the adjustment process we would expect the following opinions to be reflected in the data:

1. Overall, a positive perception of the reforms should go hand in hand with a rising level of reforms and the experience of higher rates of growth because this would help to increase confidence in the future of the economy and weaken the impact of potential anti-reform movements.
2. The reaction of capital cannot be anticipated with certainty because different impacts may be at work. *First*, there is a positive effect on capital in the exporting industries because the discrimination of the export sector arising from import

[12] To be sure, most of the people who form the pool of unskilled labor are not even aware of their fa-

protection has been lowered. But, *second*, capital will lose relative to labor as much as restructuring is of the SS type and it will even lose absolutely in the import competing industries if up-grading fails.

3. Labor will gain relatively to capital under the *SS conditions*. It may, nevertheless, still oppose the liberalization strategy for various reasons. *First*, some downgrading of skilled workers is likely to take place and these will articulate their discontent forcefully. *Second*, those who managed to enter the labor market due to export expansion will possibly be less engaged in demonstrating their improved conditions, and those who are still on the waiting list will not realize at all that their situation is about to improve.

   Under the *upgrading strategy*, the relative position of labor is not likely to improve in the short to medium run as far as the unemployed are concerned, but it will be more attractive for the industrial establishment. As the establishment is well organized but the unemployed are not, the upgrading strategy will find less resistance than the SS strategy. Overall, we would expect labor to be relatively strongly opposed to the reforms, but less so in the more advanced economies, where the upgrading strategy is expected to prevail. A positive response may also apply, if the reform economy has a relatively low rate of unemployment plus rapid export expansion. These conditions should be met more intensively by strong reformers. Thus, opposition of labor against the reforms should be lower the stronger the reforms have already been.

4. Politicians and scholars should be expected to be strongly in favor of the reforms, if they define themselves as representatives of the society as a whole rather than of specific interest groups.

3. Results of the Questionnaires

There are six questions concerning the views of the 321 experts on the economic reforms in Latin America. The answers are presented in the appendix *tables A1 - 6. Tables A 1.1 - 6.1* are organized as follows: in the first row, the average total is presented, next there are four sub-groups for MERCOSUR (MS), the Andean Commu-

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vorable option.

nity (AC), the Central American Common Market (CACM) and the North American Free Trade Agreement (NAFTA). In the MS figures, Paraguay is not represented, but Chile is. The figures of the AC are for Colombia, Peru and Venezuela. There are some votes on Bolivia and Ecuador, but these are not given separately. Figures for the CACM are only those of Guatemala. In the NAFTA context, Mexico is our point of focus. There are only a few answers from the USA and Canada (14) which are no more than indicative. They may, nevertheless, give a crude information of the distinct perception of Latin American liberalization policies from abroad (e. g. from the North). Figures for particular countries are shown underneath the regional groups wherever possible. It should also be noted that the percentages given do not necessarily add up to 100. *Tables A 1.2 - 6.2* classify according to interest groups. The data is broken down to MERCOSUR and non-MERCOSUR. The original questions are those given as titles of the respective tables.

Table A 1.1 summarizes the answers on the evaluation of the *trade reforms*. A total of 59% of all respondents do think that these reforms have been successful in their own country, and only 26% deny the success of trade liberalization. When asked how they see the situation in Latin America, quite similar results emerged (51% vs. 25%).

A break down of the data to the regional level alters the picture considerably and reveals important differences between regions and countries. In MERCOSUR, we find 80% positive votes and only 11% of the respondents think that the reforms had not been successful. The views of the MERCOSUR members on other Latin American experiences are less favorable (positive: 66%; negative: 14%)[13] but still reveal a high level of agreement. This statement is also generally valid when Chile is included, though Chileans do have less positive views on the success of trade reforms outside their own frontiers.

Within MERCOSUR, Uruguayans have been most enthusiastic for their own country's experience (94/0) and also express a very positive opinion on Latin America (72/6). Brazilians are most skeptical but still overwhelmingly in favor of the reforms (64/27 for Brazil and 59/18 for Latin America).

[13] In the following I shall use the notation (66/14) for the percentage of successful/not successful votes.

The interpretation of the NAFTA votes suffers from a lack of data on the USA and Canada. Nevertheless, the few answers which are available from these countries suggest that experts from the North have a far more positive impression of the liberalization processes in Latin America than Latin Americans themselves: all Canadians and 80% of the US respondents think that the reforms have been successful both in NAFTA and in Latin America. In turn, only 68% of the Mexicans agree but 21% disagree. Apparently, Mexicans, though still in favor of its trade reforms appear to be much less enthusiastic about the results than their Northern partners are. Also, Mexicans appear to be significantly less convinced of the merits of trade liberalization in Latin America (47/32).

In the Andean Community (AC) and the Central American Common Market (CACM), trade reforms are seen as less successful than in MERCOSUR and NAFTA. In the AC, a small vote in favor of the reforms is expressed from the point of view of the own country (43/40) but there are less negative votes on Latin America (43/34). These figures are very much influenced from the particularly negative estimation of trade policy in Colombia (12/76). Interestingly, enough Colombians are also very pessimistic on the results of these reforms in Latin America (24/64), an opinion which is in contrast to any other evaluation. Peruvians (61/26) and to a lesser degree Venezuelans (50/33) signal agreement on their own trade reforms but the former are less convinced of Latin American reforms as a whole (44/26) than the latter (67/8).

The CACM (Guatemala) respondents are close to the particularly negative Colombian figures (19/57 for Guatemala and 29/33 for Latin America).

The same type of question as for trade reforms has been put for the reforms of the *capital account*. The results are shown in *table A 2.1*. Apparently respondents are generally less enthusiastic as of the success of these reforms, both at home and in Latin America all together (home: 50/33; Latin America: 39/32). Again, we find marked differences between regions and single countries and again, the views are significantly more favorable in MERCOSUR than in any other region (71/18). Also, MERCOSUR respondents recognize a less sufficient state of affairs in other Latin American regions (50/21). Within MERCOSUR, Uruguayans give a particularly positive vote (89/6) on their own reforms while the opposite is true for Brazil (36/41).

Though Brazilians see the Latin American situation generally more positive than at home they are less convinced of the merits of monetary reforms than are Uruguayans.

Again, the NAFTA "own country" evaluation is for Mexico alone. Mexicans express a particularly negative opinion on their own capital account reforms (26/58) and are even less enthusiastic on Latin America (5/58). As with the trade reforms, the North American views are far more positive (50/20 and 50/25). Only Guatemala exhibits an even more negative evaluation of its own situation than Mexico does (7/67) but Latin America as a whole is seen to be slightly better off (24/50).

The *third* question is on the *effects of the trade reforms on different sectors* of the economy. In particular, I asked how experts evaluate the effects of the reforms on different economic actors such as exporting and import competing industries, consumers and workers. The respondents have been asked to indicate their preferences on a scale which ranges from +3 (strongly positive) to -3 (strongly negative). In order to make *table A 3.1* more transparent I shall use the following matrix for each region (country):

Sum of positive/negative
votes in %
(+3 +2 +1 -1 -2 -3)

C = consumers

X = exporting industries

IS = import competing industries

L = Labor (workers)

In the text, the answers have been compressed to Σ positive / Σ negative. Thus, for example, (60/40) means that there are 60% of the respondents in the categories +3 to +1, and 40% in the categories -1 to -3.

Starting with the answers for the whole panel (total) we find that the positive impact of trade reforms on consumers is recognized by a large majority of the voters (84/7).

(Nevertheless, considering basic trade theory, it is remarkable that about 7% of these experts disagree). Also in line with conventional wisdom on trade theory is the strongly positive evaluation of the trade *liberalization effects on exporting industries (71/15) as compared to import* substituting industries (26/62). Labor (workers), too, are thought to be affected negatively. Note that the effects on entrepreneurs of import competing industries and on *labor* appear to be nearly identical. Apparently, any positive effect that might have been documented by labor originating in the exporting industries has been outweighed by the particularly negative impact of these reforms on workers in import competing industries.

Total		
C	85/7	(37 - 33 - 14 / 1 - 1 - 4)
X	71/15	(30 - 29 - 12 / 8 - 2 - 5)
IS	26/62	(7 - 7 - 12 / 18 - 19 - 25)
L	29/50	(4 - 9 - 16 / 14 - 16 - 20)

To give a more detailed picture of the views articulated within the regions, the data has been broken down to the regional level. *First*, we analyze MERCOSUR and find that the positive effects on consumers (96/0) and exporters (78/14) are above the totals,

MERCOSUR		
C	96/0	(47 - 39 - 10 / 0 - 0 - 0)
X	78/14	(39 - 31 - 8 / 6 - 3 - 5)
IS	34/51	(8 - 8 - 18 / 19 - 16 - 16)
L	28/56	(2 - 4 - 22 / 21 - 17 - 18)

while the negative performance of the import competing industries is less pronounced. The experience of labor, however, is said to be even more negative as it has been in the total.

A break-down of the figures to the country level reveals that the answers have been quite different. While all respondents reported (strongly) positive effects for consumers and negative consequences for labor they differ in their evaluation of the effects on particular industries. For Argentina, with the best evaluation of exporting industries (84/7) import substituting industries are said to be suffering (33/53). In Uruguay, both sectors appear to be less successful: while exporting industries are still performing well (67/27) import competing industries are a matter of concern (23/77). Brazil differs remarkably in the import competing industries which are doing well even after the trade reforms (50/28), but exporting industries are performing worse than in Argentina and Uruguay. Even in Chile import competing industries are suffering more than in Brazil (31/39). This is surprising in view of the fact that the impact of the reforms on labor is perceived to be particularly positive (46/17). The explanation might be that strong growth of exports and GDP during the 1990s have helped to master structural change without much hardship of labor.

Countries				
	Argentina	Brazil	Uruguay	Chile
C	96/0	91/0	100/0	74/0
X	34/7	64/23	67/27	68/8
IS	33/53	50/28	23/77	31/39
L	31/52	18/59	22/66	46/17

The case of Brazil is puzzling. It is the only country where both exporting and import competing industries welcome trade reforms (more than 50% of the voters see positive effects on trade liberalization even on the import competing industries). Nevertheless, trade liberalization has its lowest acceptance of all MERCOSUR economies among labor (19/50). To interpret these results, two points should be considered. *First*, the Cardoso reform program of 1993/94 has been especially successful in stimulating internal demand by raising income of the poor (see Dornbusch, 19..) but is still hesitant in terms of structural reforms. *Second*, there are only few respondents in the enterprise group in Brazil and these may belong to multinational companies.

Next we turn to NAFTA. In order to analyze these data I show the answers for Mexico and USA + Canada separately and in detail.

	Mexico	USA + Canada
C	32 - 5 - 32 / 5 - 5 - 0	15 - 77 - 8 / 0 - 0 - 0
X	47 - 47 - 0 / 0 - 5 - 0	43 - 42 - 15 / 0 - 0 - 0
IS	11 - 5 - 21 / 16 - 16 - 21	20 - 8 - 7 / 22 - 35 - 8
L	5 - 21 - 5 / 5 - 26 - 32	7 - 27 - 13 / 7 - 13 - 0

In general, there is the same structure of answers in Mexico as compared to Latin America. Consumers (69/10) and exporting industries (94/5) are among those who are believed to gain from the reforms, import competing industries (37/53) and workers (31/63) are the net losers. However, North Americans (USA + Canada) do think much more positively about the Latin American reforms. They also realize that import competing industries have come under severe pressure in a more open economic environment (35/65), but unanimously see consumers (100/0) and exporting industries (100/0) as the big winners. Note that the impact of the reforms on labor is seen to be positive, too (47/20).[14] Within Latin America, only Chile has articulated such a favorable outcome of the reforms on labor. The answers from respondents from the Andean Pact are in line with the total.

Andean Community

	total AC	CO	VE	PE
C	87/5 (45 - 31 - 11 / 1 - 4 - 0)	96/0	85/8	82/6
X	63/20 (21 - 23 - 19 / 11 - 2 - 7)	48/32	92/8	62/18
IS	14/85 (2 - 6 - 6 / 17 - 23 - 45)	12/84	16/85	16/84
L	20/52 (1 - 6 - 13 / 6 - 16 - 30)	24/68	16/55	19/63

Here, the impact on import substituting industries is seen to be very negative (14/85) with more than 50% (45 percentage points) in the category "strongly negative". The fact that the evaluation of the effects on labor is less negative supposedly reflects more positive performance of labor in exporting industries. The answers for CACM are not much different except for consumers. Apparently, in Guatemala, the un-

[14] Note that the answers from USA + Canada do not include perceptions of politicians and entrepreneurs

doubtedly positive effects of trade liberalization on consumers have not been recognized even by people familiar with economic topics.

CACM (Guatemala)

C	63/31 (14 - 28 - 21 / 2 - 7 - 22)
X	57/23 (7 - 31 - 19 / 14 - 2 - 7)
IS	15/73 (5 - 7 - 3 / 21 - 21 - 31)
L	20/65 (7 - 3 - 10/ 16 - 21 - 28)

Before proceeding to questions 4 to 6 I shall analyze how the *particular interest groups* themselves react to questions 1 to 3. The answers will be broken down to MERCOSUR and non-MERCOSUR level only. Even at this high level of aggregation the number of respondents is scarce, and the results are not more than a crude indication. From *table A 1.2* it is obvious that all interest groups in MERCOSUR are much in favor of the trade reforms. Non-MERCOSUR respondents are much more skeptical in all groups.

Three points deserve attention. *First*, workers (trade unions) agree to the trade reforms at a 75% rate in MERCOSUR but only at 27% in non-MERCOSUR (here, 57% indicate that these reforms have not been successful). Non-MERCOSUR workers also believe that the reforms are unsuccessful in Latin America in general. MERCOSUR labor representatives; though less optimistic on Latin America too, still have a positive meaning (50% successful). *Second*, scholars are generally less enthusiastic about the reforms than politicians and they see more deficits in non-MERCOSUR than in MERCOSUR. Entrepreneurs are particularly optimistic about trade liberalization in MERCOSUR (88/6) but are skeptical in non-MERCOSUR (34/48).

On the general level, it has been found that the *capital account reforms* did find a less positive evaluation than the trade reforms. This will of course be reflected in the answers of the interest groups, too *(table A 2.2)*. But there are some different perceptions on the group level. *First*, *politicians* from non-MERCOSUR do not give different evaluations to trade and capital account reforms (52% in both cases) but MERCOSUR politicians believe that the capital account reforms have been much less successful (63% against 88% for trade reforms). *Entrepreneurs* of non-MERCOSUR even give the success of the capital account reforms a higher rating (50%) than the trade reforms (34%). In turn, non-MERCOSUR *scholars* and *workers* grade the capital account reforms particularly negatively (only 16/23%).

Last not least, MERCOSUR and non-MERCOSUR respondents indicate a significantly less positive effect of the capital account reforms in Latin America in general as compared to their home region. The difference is particularly strong among labor in MERCOSUR (63 versus 25%) and politicians in non-MERCOSUR (53 versus 27%).

Turning to *question 3 (table A 3.2)* the data, of course, reflect the fact that exporting and import competing industries are influenced differently by the trade reforms. Politicians and capital overwhelmingly share the opinion that *exporting industries* are impacted positively (82/83). Scholars, too, admit to this evaluation (72%) and even workers signal this belief (63%). In non-MERCOSUR all respondents are a little bit more cautious except scholars (75%).

Import competing industries are among those which are in danger to run into trouble. The data confirms this belief. In MERCOSUR slightly more than 50% of politicians and entrepreneurs and 48% of scholars fear negative effects, and 63% of labor do. Astonishingly, there is a relatively high percentage of workers who still see chances for the import substituting industries (38% positive effects). Only 31%/36%/37% of the politicians/scholars/capital share this view. Non-MERCOSUR respondents are generally less optimistic about the future (adjustment capacity) of the import substituting industries. Taking into consideration that the reforms in MERCOSUR are in a more advanced stage (with a possible exception of Brazil) one is tempted to conclude that the costs of adjustment to trade reforms are much higher ex ante (in the imagination of people) than ex post (in reality).

As for consumers, there is a wide spread belief in MERCOSUR that an open market regime is favorable for them. In turn, between 7% scholars and 31% workers of non-MERCOSUR respondents see a negative impact on consumers. The views on the direct impact of the reforms on workers show a mixed outcome. In general, there is a strong conviction among contestants that the reforms hurt labor. In MERCOSUR, however, the number of skeptics is smaller than in non-MERCOSUR. It is particularly interesting that the MERCOSUR politicians and scholars evaluate the situation of labor more critically than labor itself. This is not the case in non-MERCOSUR, where both labor and capital bemoan the situation of workers.

Given the mixed reaction of the respondents to the reforms in particular countries (and among interest groups) it would be interesting to know how these same people evaluate the scope for *further reform activities*. In *question 4 (table A 4.1)* I asked whether people believe that the past reforms have been strong enough, not strong enough or too strong. 58% of the total declare that the reforms in their own country have not been strong enough and only about 5% said they were too strong. About 30% voted in favor of the present situation. This appears to be an astonishingly high acceptance of the total reform process and underlines the results from questions 1 - 3. Also the majority accepts that the reforms need to go beyond the present state of affairs. It is quite interesting to compare these answers (which apply to the sum of each single country evaluation)[15] with the evaluations which apply for the whole region: there are significantly less people who are convinced that the reforms have been strong enough throughout Latin America (20%) as compared to their own country (30%).

Still another point to mention is that respondents from MERCOSUR who conceded that the reforms have been quite successful at home (see above) are nevertheless not sure about the future course of action. About 43% declare that the reforms have been strong enough to guarantee a sound basis for sustained growth and development, but 48% meant that they have not been strong enough.

On the level of individual countries, the answers are quite different. In Argentina (54%) and Chile (41%) the category "strong enough" dominated, but more Chileans than Argentines would like to proceed (39/37%). In Brazil and Uruguay 68% and 67% think that the reforms have not been strong enough. But there is no vote on the opposite position (too strong) in Uruguay while a considerable share of the Brazilians (9%) would even like to remove the reform process. Though the anti-reformers are a relatively small minority, they are more influential in Brazil (9%) than in Argentina

[15] That is, people in each country have been asked to indicate the situation for their individual country.

(4%) and Chile. In this latter country nobody was found who would like to remove the reforms.

Despite the relatively heterogeneous structure of opinions on the country experiences of the MERCOSUR members the experts have a distinct view of the situation in Latin America as a whole. About 65% of all respondents (with only small differences between countries) declared that the reforms in Latin America have not yet been satisfactory.

The situation is more critical in the Andean Community, and in Colombia and Venezuela in particular. Only 4% (8%) of the Colombians (Venezuelans) think that their reform programs have been strong enough. In turn, 92% of the Colombians and 85% of the Venezuelans indicated that the reforms have not been strong enough.

Interestingly, Colombians are as pessimistic of the reforms in Latin America as at home (92% "not strong enough") while Venezuelans recognized more clearly the difference between the region and their own lagged situation (85% versus 62%).

In Peru, where the Fujimori regime had implemented a particularly strong liberal (economic) regime there exists an above average opposition against this policy (9% "too strong"), but 44% would like to proceed on the reform trip. Peruvians also believe that Latin America as a whole has still a long way to go to keep up with the Peruvian reforms (73% "not strong enough").

In Guatemala, people are as discontent with the reforms as they are in Colombia and Venezuela and they believe that they are running behind the scene in Latin America.

NAFTA again presents a dualistic picture. North Americans do have the general impression that Mexico is proceeding in line with the rest of Latin America and that the whole region still has room for further improvement. In turn, Mexicans indicate a relatively high potential of resistance to further reforms (32% "strong enough", 16% "too strong"). They also believe that their reforms have been much more successful than those in Latin America: 74% mean that reforms in Latin America have not been strong enough, but only 52% share this opinion for Mexico.

In *table A 4.2* the data is broken down to the interest groups. Politicians are equally divided between "strong enough" and "not strong enough", but no claims that they were too strong. Among scholars there are even 64% "not strong enough" votes but 4% said "too strong". The majority of entrepreneurs are voting for "strong enough" or even too strong (48% and 4%). 12,5% of workers think that the reforms have been too strong, but 45% express the opposite. Interestingly, there are hardly any votes from representatives of MERCOSUR interest groups which would claim that in Latin America the reforms have been too strong (4% of scholars and 3% of entrepreneurs and most voters indicated for "not strong enough" (from 56% of politicians to 75% of labor). In the non-MERCOSUR category all groups share the opinion that the reforms have been not strong enough (between 67% of politicians and 78% of the scholars). Among scholars, opinions are most polarized: 12% claim that the reforms have been "too strong" and 7% "strong enough".

The next question was on the importance of a stable macroeconomic environment. The answers to this question are important for the evaluation of the stability of the reform process for different reasons. *First*, they might indicate the seriousness of Latin America's turn away from structuralist theories of inflation and the (implicit) acceptance of inflation as a positive stimulance of economic growth. *Second*, economies with a notorious bias towards inflation (and inflexible or even fixed exchange rates) use to be priority candidates of currency (exchange rate) crisis. One can, therefore, hypothesize that a low level of tolerance of an unstable macroeconomic environment indicates the seriousness of the dedication of people towards sound and lasting reforms. *Table A 5.1* indicates the views on this aspect of the reform programs. Only about 6% of the respondents do not estimate the merits of a stable macroeconomic environment and another 6% are indifferent. In turn, about 88% declare that sound macroeconomic conditions are important for growth. It is interesting to see that there are only three countries in the sample in which the acceptance of macroeconomic stability is below 92%. Two of them, Mexico (68%) and Brazil (73%) have been victims of a currency crisis during the reform era of the 90s. Leaving aside these (important) cases it seems to be a common insight in Latin America now that inflation is no way out of economic problems. This is an important change from traditional economic thinking in Latin America to internationally accepted rules.

The strong rejection of inflationary policies is shared by all interest groups (*table A 5.2*). Between 94% of politicians and entrepreneurs and 100% of workers are in favor of a stable macroeconomic environment. Only among scholars, structuralism has still some proponents (12%). Non-MERCOSUR groups, too, are voting overwhelmingly in favor of a stable macroeconomic environment.

Starting from this background I asked which *type of exchange rate regime* would be convenient for the respective countries: a currency board (implying a fixed exchange rate system), a flexible rate or some kind of mechanism that intents to stabilize the real exchange rate. *In table 6.1* a total of 21% opted for a currency board, 41% for a flexible exchange rate, 35% for a stabilized real exchange rate. A break down of the answers to the country level reveals that the currency board is in fact acceptable only in Argentina. In Chile and Peru most voters would prefer a flexible exchange rate (56% and 80%). 50% of the Uruguayans and 49% of the Brazilians share this view. Only in Brazil, an absolute majority in favor of a distinct policy to stabilize the real exchange rate exists. This option is also favored in Mexico (58%).

The combined message of questions 5 and 6 is straight forward. Except for Argentina with its unique acceptance of the currency board (a statement which may have become obsolete, meanwhile) all countries are hesitant to fix its exchange rates definitely. This is despite the fact that macroeconomic stability is generally accepted now as a precondition for long run development and growth, and inflation rates have been kept at relatively low levels for quite a number of years. This lends support to the supposition that it is not necessarily an exchange rate anchor that enforces low rates of inflation but prudent fiscal and monetary policies at home which are born out of political conviction.

Table A 6.2 reveals that also among interest groups the flexible exchange rate is a favor. Only scholars consider the option "real exchange rate stabilization" as preferable (40% in MERCOSUR, 49% in non-MERCOSUR). Non-MERCOSUR groups favor the flexible exchange rate system more clearly than MERCOSUR members. This result is partly due to the fact that in MERCOSUR (Argentina) there is a large coalition of politicians (38%) and entrepreneurs (43%) in favor of the currency board.

4. Summary and Conclusion

Measured by GDP growth rates from 1991 to 1999 the economic reforms in Latin America have been quite successful. Also the success is higher, the more intensive the reforms have been. Nevertheless, due to the severe structural changes which have to be carried out during the transformation from the traditional inward looking economic development model towards a modern open regime, it is not clear to what extent Latin American people really welcome this change of strategy.

In this paper the results of a questionnaire on the evaluation of the reforms have been presented. The questions have been answered by 321 experts from different groups of societies in nine Latin American countries, the United States and Canada.

The following opinions on the reforms prevail:

1. Trade reforms have found an overwhelming acceptance across countries and among politicians, scholars, capital and even labor. The level of acceptance is significantly higher in MERCOSUR countries than in non-MERCOSUR countries. In the latter, the majority of labor disagrees.

2. The acceptance of the capital account reforms is still positive but less so than the trade reforms. Again, the adherents of the reforms are concentrated in the MERCOSUR countries, except Brazil (the questionnaire has been spread in Brazil in 1998/1999, that is, immediately before and during the currency crisis). In Mexico, the majority of contestants expressed discontent about the monetary reforms. This result confirms the still existing weakness of this sector in Mexico.

3. When asked how different economic groups have been influenced by the reforms the respondents expressed the following opinions: *consumers* are the main winners along with *exporting industries. Import competing industries* and *labor* are losers. This is a relatively skeptical evaluation. In lends support to the thesis that the structural adjustment process is still under way, and the expected long run effects of opening up have not yet fully materialized in many Latin American countries. This supposition is enforced by the fact that the results for

Chile (early and strong reformer) are much more favorable even for labor than those for Colombia, Venezuela and Guatemala (late and weak reformers).

It is also worth to mention that in the smaller economies of MERCOSUR we find a positive perception of the reforms on the exporting industries but particularly negative views on the import substituting sectors. In Brazil, instead, import substituting industries are doing well, but not the exporting industries. This surprising result will surely be influenced by the Cardoso reforms which stimulated internal demand (particularly from low income sectors). However, it might also be an indication of differing adjustment strategies in Brazil (internal upgrading) and Argentina and Uruguay (SS process).

4. The forth question confirms the broad tendencies to be derived from 1 to 3. Again, it should be emphasized that the reforms find a particularly strong support in the MERCOSUR countries (including Chile).

5. Questions five and six reveal a remarkable change in Latin America's views on the merits of a sound macroeconomic management. Contrary to structuralist conviction, low rates of inflation as a precondition for sustained economic growth are not in dispute any more. As far as the adequate exchange rate system is concerned, flexible exchange rates are ranked highest. The Argentine "currency board", in turn, does not find many supporters elsewhere.

To sum it up, the lesson to be learnt from this investigation is that, at the end of the 1990s, the economic reforms in Latin America are welcomed by a broad majority of this diverse set of experts. The fact that the opinions have been collected during 1998 and 1999, when Latin America (except Mexico) suffered from economic depression, enforces this result.

Apparently the "mental" change from inward looking to outward oriented economic development has taken place profoundly in MERCOSUR and, in particular, in the smaller member countries. Also in Peru, a firm dedication towards the new economic policies has been observed, though there is still a considerable amount of skepticism. Contrary to this, in Colombia, Venezuela and Guatemala (CACM) where the reforms are lagging behind, there is still a much firmer belief in the old economic strategies. This different evaluation of the reforms in the Southern Cone on one side and the Andean Community (Colombia and Venezuela) and CACM (Guatemala) on the other supports the thesis that success in the reform efforts breeds acceptance and paves the way for further action.

The situation in Mexico is puzzling. Despite the fact, that the participation in NAFTA has fed an export and FDI led boom which pushed GDP after the Tequila crisis, Mexicans appear to be less convinced of the merits of the liberalization policies and they also hesitate to proceed on the reform path. An explanation of this observation is not that easy and may include such diverse elements as the difficult actual situation of local industrial firms (mainly due to the still weak banking and financial sector), the particularly worrisome situation of the agricultural sector and - more generally - the rapid and dramatic change in the official relations with the USA.

Last but not least, the observation that a large majority of Latin Americans have turned away from structuralist theories of inflation and the implicit acceptance of soft budget lines gives hope to the belief that, after decades of neglect, the provision of adequate macroeconomic conditions for sustained economic growth will become a standard element of economic policies in most countries of the region.

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