

Universitat de Valencia

Economic Policy in Emerging Countries: Selected Topics

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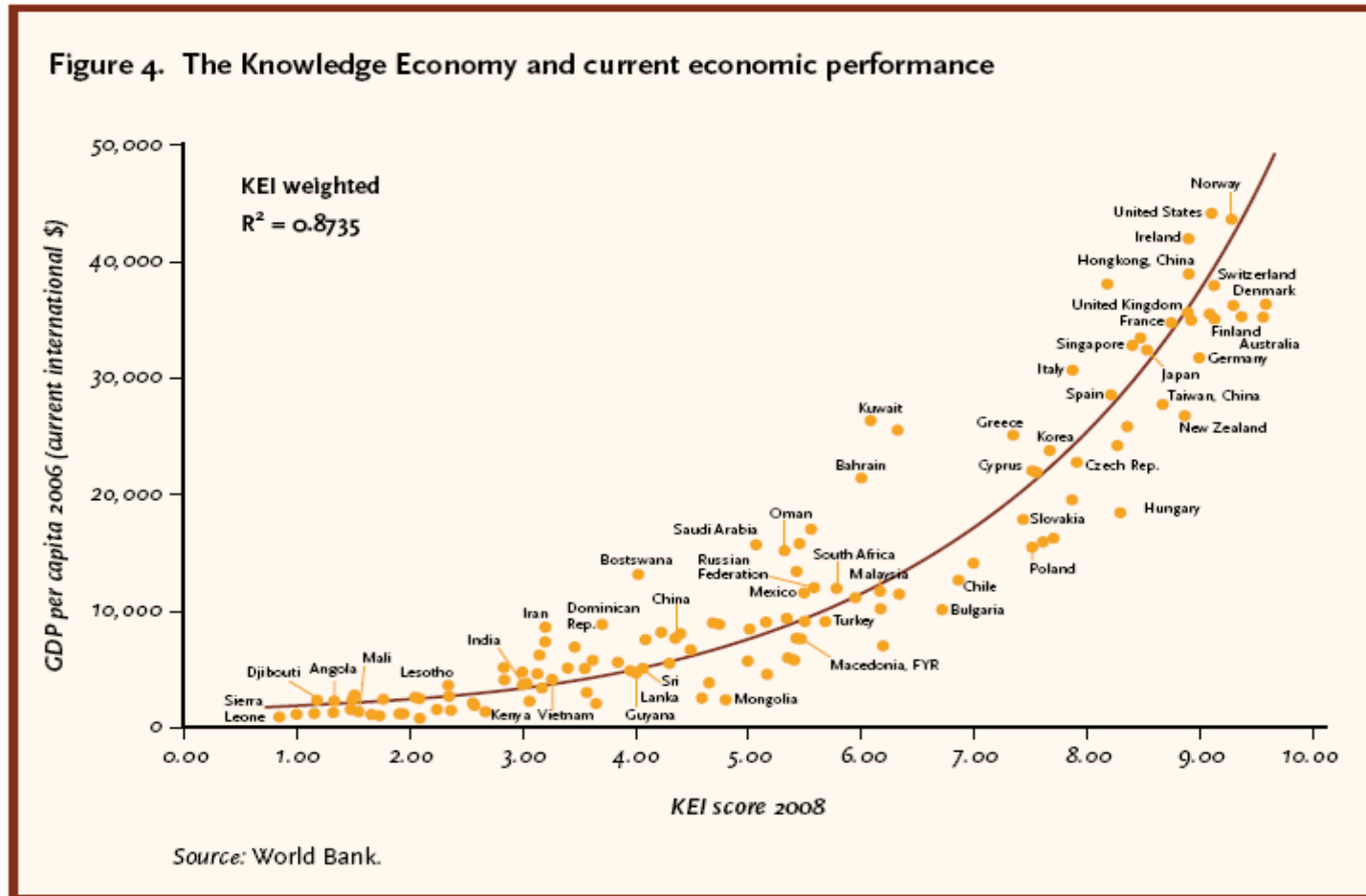
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SUMMARY

- 1. Knowledge Based Economy and Economic Performance**
- 2. Corruption**
- 3. External shocks: permanents or temporaries**
- 4. Sudden stops**
- 5. Damage of Trust**
- 6. Reason and Emotions in Economic Decision Making**
- 7. Lack of Clinical Economics**
- 8. Two rest of the world**
- 9. Foreign exchange rate policy**
- 10. Strategies for improving Latin American Economies performance.**

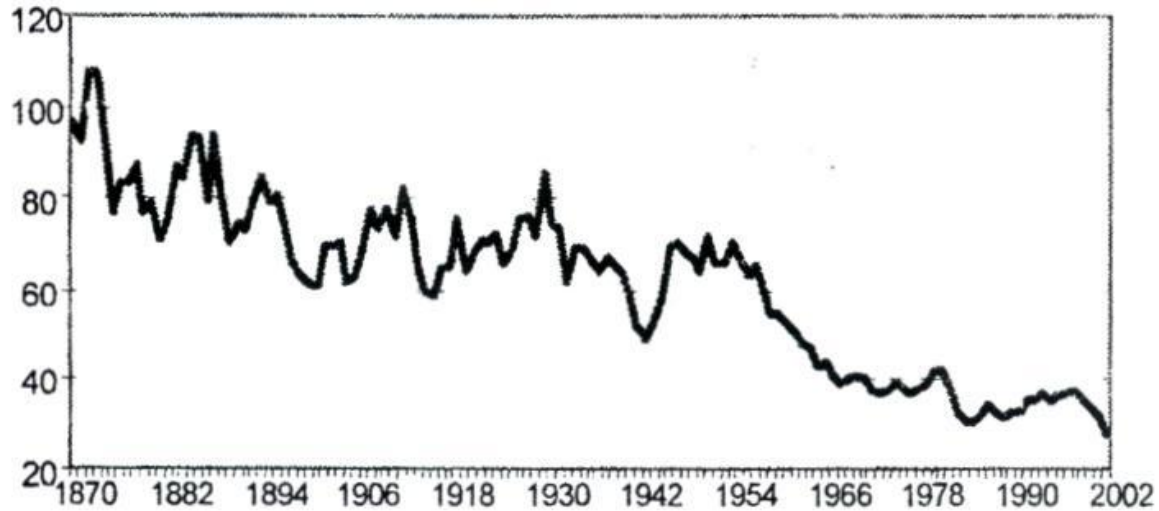
1. Knowledge Based Economy and Economic Performance

Knowledge Based Economy and Economic Performance



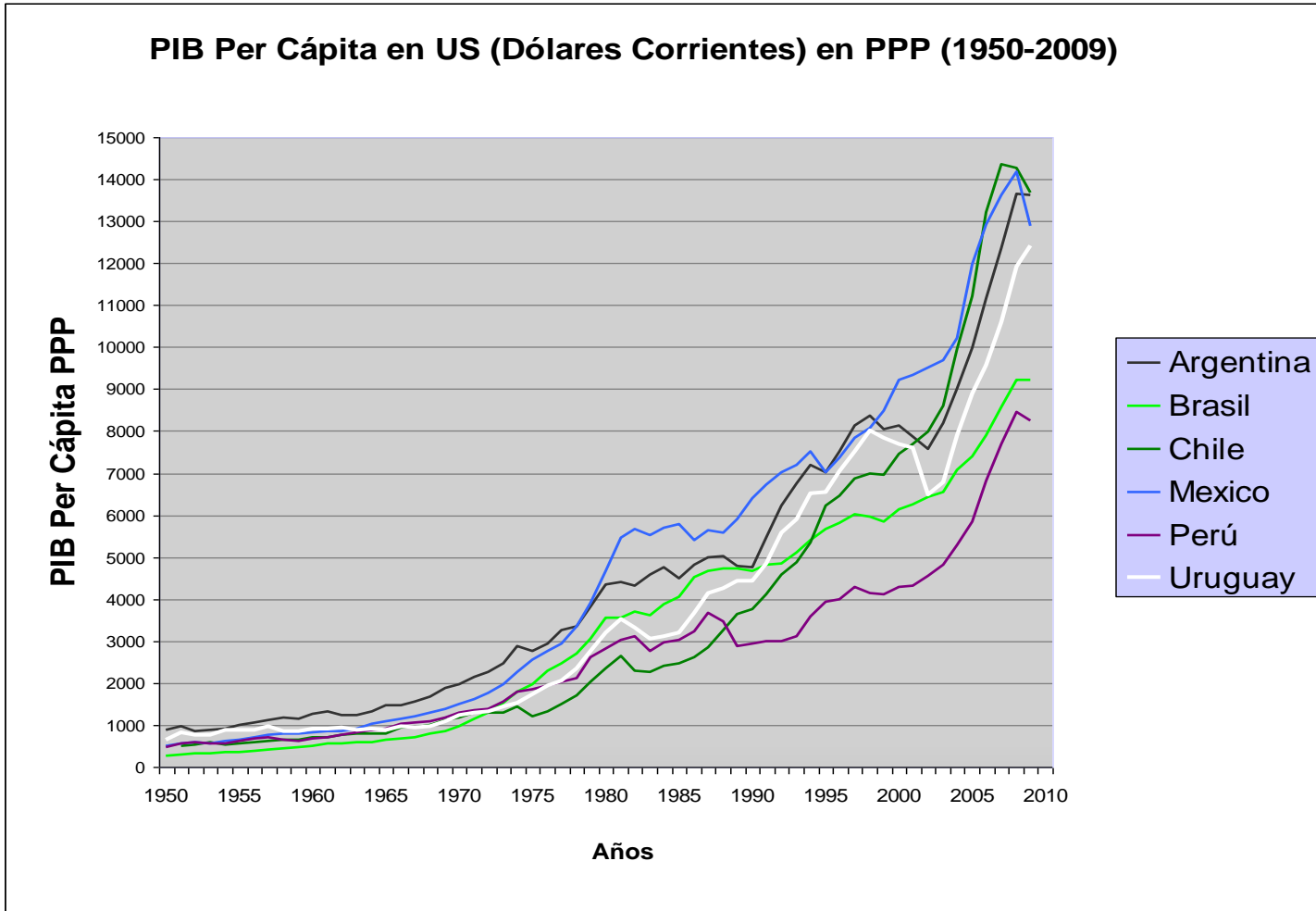
Source: BM (2009) "Measuring Knowledge in the World's Economies".

Uruguayan GDP per Cápita



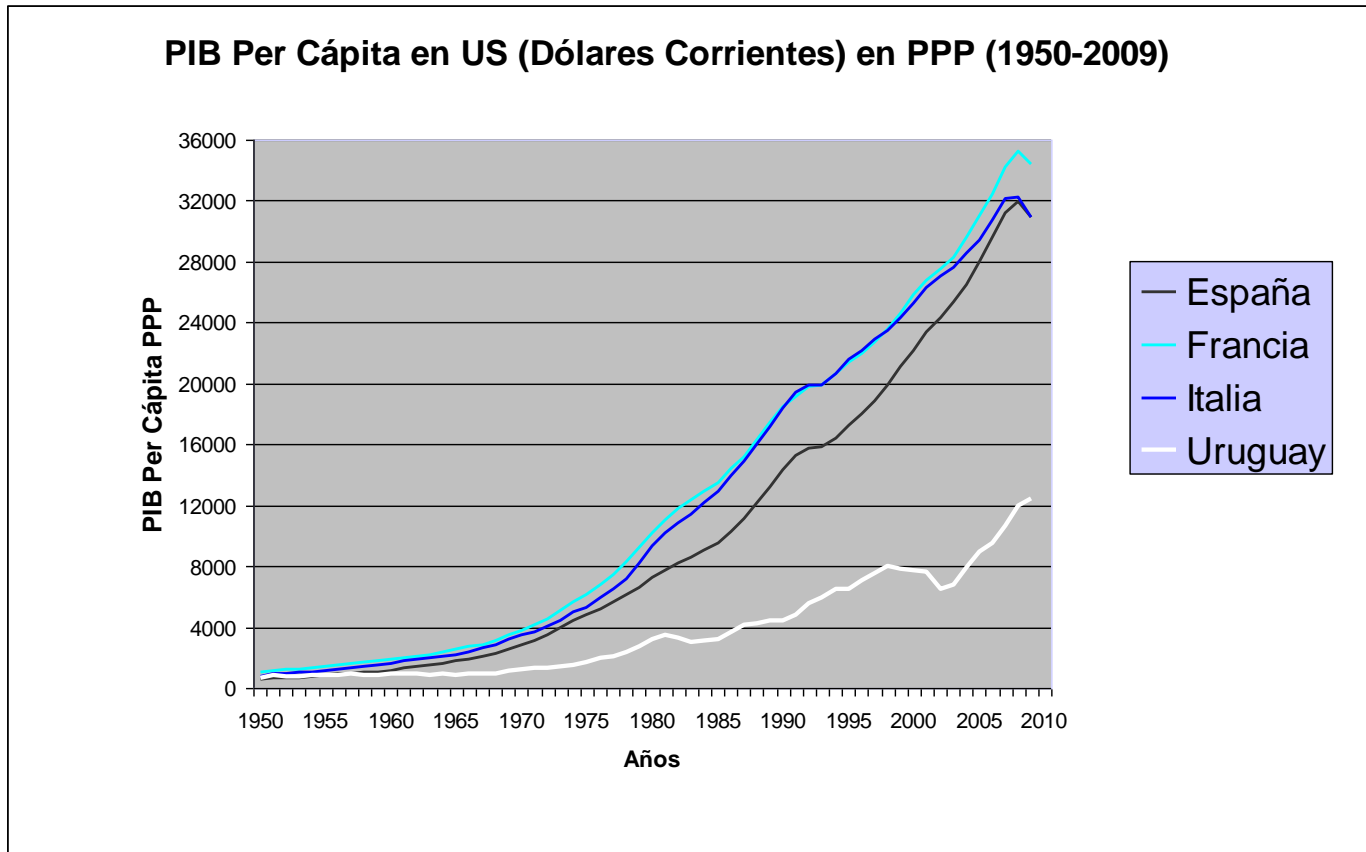
Fuente: Bértola (2005) sobre la base de Maddison, A. (1995), Maddison, A. (2001), e IMF.

GDP Evolution in PPP



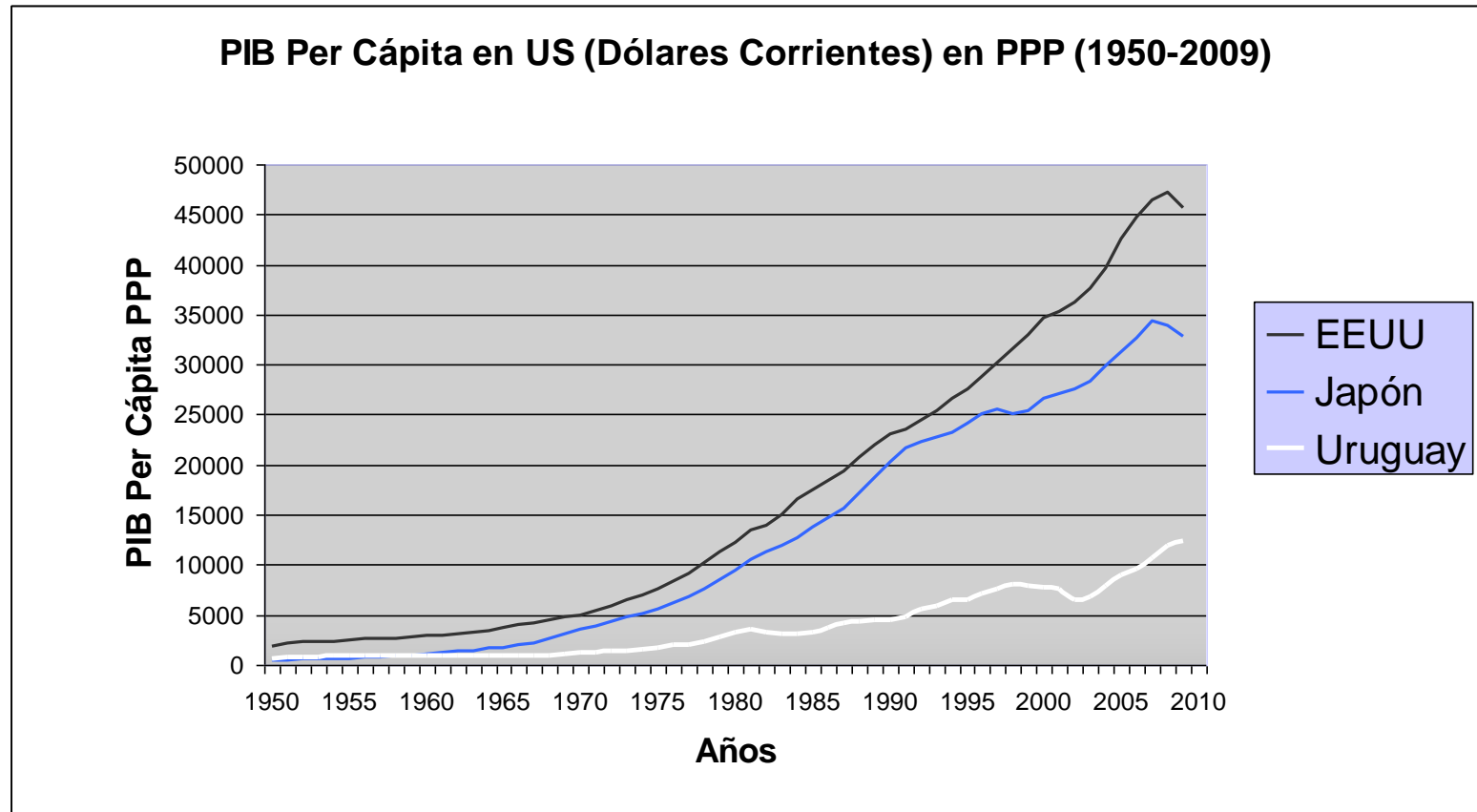
Source: Elaboración propia, sobre la base de datos de PWT 7.0 Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 7.0, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, March 2011.

GDP Evolution in PPP



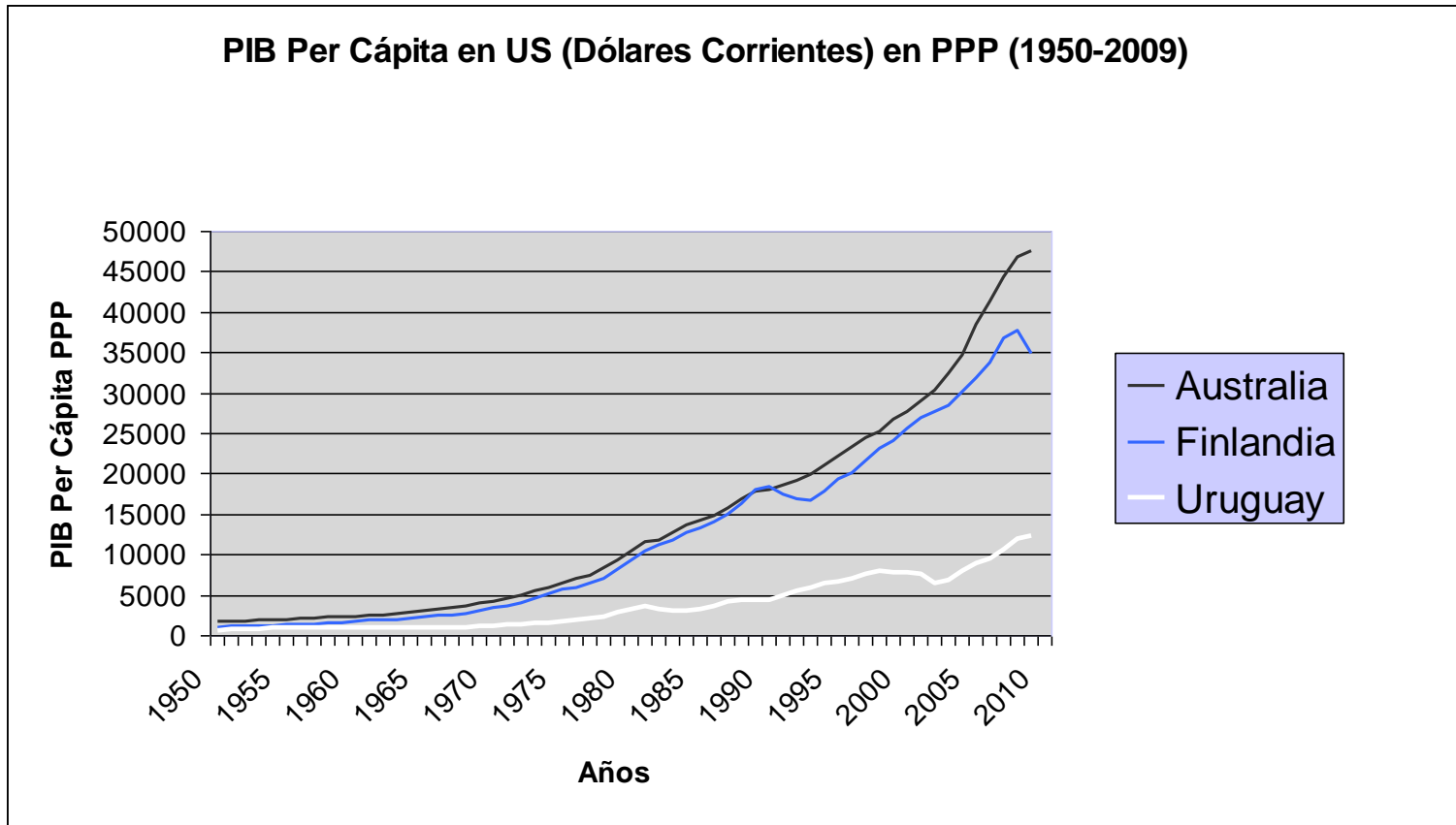
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KEI

Knowledge Economy Index

Rank		Country	x	KEI	KI	Economic Incentive Regime	Innovation	Education	ICT
31	8	Malta		7.88	7.53	8.94	7.94	6.86	7.80
32	2	Lithuania		7.80	7.68	8.15	6.82	8.64	7.59
33	7	Slovak Republic		7.64	7.46	8.17	7.30	7.42	7.68
34	-4	Portugal		7.61	7.34	8.42	7.62	6.99	7.41
35	-3	Cyprus		7.56	7.50	7.71	7.71	7.23	7.57
36	-5	Greece		7.51	7.74	6.80	7.83	8.96	6.43
37	0	Latvia		7.41	7.15	8.21	6.56	7.73	7.16
38	-3	Poland		7.41	7.20	8.01	7.16	7.76	6.70
39	4	Croatia		7.29	7.27	7.35	7.66	6.15	8.00
40	-2	Chile		7.21	6.61	9.01	6.93	6.83	6.05
41	-5	Barbados	X	7.18	7.92	4.96	7.62	7.27	8.87
42	6	United Arab Emirates	X	6.94	7.09	6.50	6.60	5.80	8.88
43	-2	Bahrain	X	6.90	6.98	6.69	4.61	6.78	9.54
44	9	Romania		6.82	6.63	7.39	6.14	7.55	6.19
45	6	Bulgaria		6.80	6.61	7.35	6.94	6.25	6.66
46	-4	Uruguay		6.39	6.32	6.60	5.94	5.99	7.02
47	18	Oman	X	6.14	5.87	6.96	5.88	5.23	6.49
48	-3	Malaysia		6.10	6.25	5.67	6.91	5.22	6.61
49		Serbia		6.02	6.61	4.23	6.47	5.98	7.39
50	26	Saudi Arabia		5.96	6.05	5.68	4.14	5.65	8.37
51	-4	Costa Rica		5.93	5.65	6.76	6.19	5.43	5.34
52	4	Trinidad and Tobago	X	5.91	5.93	5.84	6.36	4.84	6.59
53		Aruba	X	5.89	4.97	8.63	3.52	5.96	5.44
54	-5	Qatar	X	5.84	5.50	6.87	6.42	3.41	6.65
55	9	Russian Federation		5.78	6.96	2.23	6.93	6.79	7.16
56	-2	Ukraine		5.73	6.33	3.95	5.76	8.26	4.96
57	16	Macedonia, FYR	X	5.65	5.63	5.73	4.99	5.15	6.74
58	-3	Jamaica		5.65	6.18	4.08	5.68	5.58	7.27
59	11	Belarus	X	5.59	6.62	2.50	5.70	7.37	6.79
60	-1	Brazil		5.58	6.05	4.17	6.31	5.61	6.24

2. Corruption

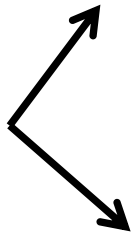
Corruption Perception Index

RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE
1	Denmark	92	24	Bahamas	71	47	Costa Rica	54
2	New Zealand	91	25	United Arab Emirates	70	47	Hungary	54
3	Finland	89	26	Estonia	69	47	Mauritius	54
4	Sweden	87	26	France	69	50	Georgia	52
5	Norway	86	26	Qatar	69	50	Malaysia	52
5	Switzerland	86	29	Saint Vincent and the Grenadines	67	50	Samoa	52
7	Singapore	84	30	Bhutan	65	53	Czech Republic	51
8	Netherlands	83	31	Botswana	63	54	Slovakia	50
9	Luxembourg	82	31	Cyprus	63	55	Bahrain	49
10	Canada	81	31	Portugal	63	55	Jordan	49
11	Australia	80	31	Puerto Rico	63	55	Lesotho	49
12	Germany	79	35	Poland	61	55	Namibia	49
12	Iceland	79	35	Taiwan	61	55	Rwanda	49
14	United Kingdom	78	37	Israel	60	55	Saudi Arabia	49
15	Belgium	76	37	Spain	60	61	Croatia	48
15	Japan	76	39	Dominica	58	61	Ghana	48
17	Barbados	74	39	Lithuania	58	63	Cuba	46
17	Hong Kong	74	39	Slovenia	58	64	Oman	45
17	Ireland	74	42	Cape Verde	57	64	The FYR of Macedonia	45
17	United States	74	43	Korea (South)	55	64	Turkey	45
21	Chile	73	43	Latvia	55	67	Kuwait	44
21	Uruguay	73	43	Malta	55	67	South Africa	44
23	Austria	72	43	Seychelles	55	69	Brazil	43
						69	Bulgaria	43
						69	Greece	43
						69	Italy	43
						69	Romania	43
						69	Senegal	43
						69	Swaziland	43
						76	Montenegro	42
						76	Sao Tome and Principe	42
						78	Serbia	41
						79	Tunisia	40
						80	Benin	39
						80	Bosnia and Herzegovina	39
						80	El Salvador	39
						80	Mongolia	39
						80	Morocco	39
						85	Burkina Faso	38
						85	India	38
						85	Jamaica	38
						85	Peru	38
						85	Philippines	38
						85	Sri Lanka	38
						85	Thailand	38

3. External shocks: permanents or temporaries

- **Positive** external shock
Important inflow of external resources
- Usual reaction: currency revaluation to avoid inflationary pressures and fiscal effort

3. External shocks: permanents or temporaries

- Decision 
 - shock as a permanent one
 - shock as a temporary one

3. External shocks: permanents or temporaries

- As a permanent one
 - cost for exports
 - expansion of credit
- Potencial problem:shock reversal
 - External accounts equilibrium
 - Loan portfolio

3. External shocks: permanents or temporaries

- If a **transitory shock** is interpreted as a permanent one and really a transitory one, consumption raise, low exports, financial problems (loan repayments) and a fiscal crises (less revenues)

3. External shocks: permanents or temporaries

- If a permanent shock is interpreted as a transitory one the results are the contrary.

3. External shocks: permanents or temporaries

- The decision is not an easy one.

3. External shocks: permanents or temporaries

- **Uruguay 1986**
- Received a positive shock
- It was interpreted by the authorities as a trasitotory. And it was

3. External shocks: permanents or temporaries

- We mantain as far as we can the real rate of Exchange and sterilized Central Bank international reserves and reduced the fiscal disequilibrium.

4. Sudden stops

Sudden stop of capital inflows and liquidity crisis

4. Sudden stops

The Emerging Markets Economies:

Financial vulnerabilities affects the Central
Banks as LOLR

4. Sudden stops

A good LOLR has own resources (international reserves) or debt.

4. Sudden stops

The limits of domestic currency creation:
inflation and rate of exchange increase

With sudden stop also the rate of exchange will
increase.

4. Sudden stops

The optimal stock of international reserve depends on its potential use.

The importance of international reserves or credit lines sufficiently large to avoid exports problems and bank's problems (non performing loans).

4. Sudden stops

An independent monetary policy should create conditions to eliminate Domestic Loans Dollarizations.

5. Damage of Trust

Two main features in the concept of trust:

- **vulnerability**
- **uncertainty**

5. Damage of Trust

- **Interpersonal**
- **Groupal**
- **Systemic**

5. Damage of Trust

- **Interpersonal**
 - Competence
 - Honesty
 - Compromise
 - Consensus

5. Damage of Trust

- **Groupal**
 - values

5. Damage of Trust

- **Systemic**

- The Economy

- “Animal Spirits”

- Accountability

- Technology & Transparency

5. Damage of Trust

- **Systemic**

- Citizen participation
- Uncertain events perception
- The role of communication the risky events
- Other governments uncertainties

6- Reason and Emotions in Economic Decision Making

- Neoclassical based in **Perfect Rationality**

6- Reason and Emotions in Economic Decision Making

- Philosophical roots:

Rene Descartes (1637)

“Je pense donc je suis”

6- Reason and Emotions in Economic Decision Making

- **Adam Smith:**

Theory of moral sentiment (1759)

Passions

Passive observer

6- Reason and Emotions in Economic Decision Making

- Jeremy Bentham (1789)

Father of the utilitarianism

6- Reason and Emotions in Economic Decision Making

- Alfred Marshall (1920)

“The economics is a psychological science”

6- Reason and Emotions in Economic Decision Making

- John M. Keynes

Animal Spirits

6- Reason and Emotions in Economic Decision Making

- Daniel Kahneman and Amos Tversky (1979)

Prospect theory

6- Reason and Emotions in Economic Decision Making

- Herbert Simon (1950 and beyond)

Bounded rationality

6- Reason and Emotions in Economic Decision Making

- The return of emotions

From the latin “*emotionis*” wich means movements, and impulse.

6- Reason and Emotions in Economic Decision Making

- Barin

Limbic system

Pre Frontal Cortex

6- Reason and Emotions in Economic Decision Making

- Neurociences revolution

Antonio Damasio

Descartes' error

The major error to separate the thinking from the mind and body

6- Reason and Emotions in Economic Decision Making

- The state of the art

**Economic Decision are impulsed by the emotions.
The reason looks for avoide overflowing**

Then both contributes to build economic decision

7- Lack of Clinical Economics

- There is an Hypertrophy of paraclinic (analysis models etc).
- Most Economist does not apply clinics

7- Lack of Clinical Economics

- A Stanford PhD in Economics who never was to Ghana or Tanzania, thinks that can make a diagnostic about the economic situations of those countries.
- Even worst, prescribe economic therapies

7- Lack of Clinical Economics

- Jeffrey Sachs says:

“The institutions where they work think correctly about the problems of the countries in which they operate? The answer is no.”

7- Lack of Clinical Economics

- Jeffrey Sachs says:

“Development economics needs an overhaul in order to be much more like modern medicine, a profession of rigor, insight, and practicality.”

7- Lack of Clinical Economics

- Jeffrey Sachs says:

“In some ways, today's development economics is like eighteenth- century medicine, when doctors used leeches to draw blood from their patients, often killing them in the process.”

7- Lack of Clinical Economics

- Some Lessons for Clinical Economics

Lesson 1

“that the human body is a complex system.”

7- Lack of Clinical Economics

- Some Lessons for Clinical Economics

Lesson 2

“that complexity requires a differential diagnosis.”

7- Lack of Clinical Economics

- Some Lessons for Clinical Economics

Lesson 3

“that all medicine is family medicine”

7- Lack of Clinical Economics

- Some Lessons for Clinical Economics

Lesson 4

“that monitoring and evaluation are essential”

7- Lack of Clinical Economics

- Some Lessons for Clinical Economics

Lesson 5

“that medicine is a profession”

8. Two rest of the world

1. Argentina & Brazil (40%)
2. Rest of the World

8. Two rest of the world

- Solution: maintain real Exchange rate
- Problem: it is not a long term policy
non sustainable with the available resources

9. Foreign exchange rate policy

- Floating or fixed

10. Strategies for improving Latin American economies performance.

10. Strategies for improving Latin American economies performance.

- **The last two Technological Revolutions**
- 1908 Cuantitative Production Paradigm
Henry Ford T model.
- 1971 Digital Revolution
Intel developed the first Microprocessor Santa Clara California.

10. Strategies for improving Latin American economies performance.

- **Some features**
- Hyper-segmentation
- Componentization
- High-technology specialization
- “Glocalization”

10. Strategies for improving Latin American economies performance.

- Every technological revolution offers enormous potential for wealth creation and social well-being.

10. Strategies for improving Latin American economies performance.

- Each is clearly superior to earlier ones in terms of effectiveness and productivity, not just because of the new technologies involved, but also because of the new “techno-economic and organizational paradigm” which is its accompanying best practice.

10. Strategies for improving Latin American economies performance.

- There is a profound difference between the old multinationals (MNCs) and the current global corporations (GCs). The former were the final phase of the mass production paradigm and a way of dealing with maturity and market saturation; the current GCs are the organizations that use the new ICT paradigm to best advantage.

10. Strategies for improving Latin American economies performance.

- The name “global corporation” is self-explanatory.

10. Strategies for improving Latin American economies performance.

- A corporation of this kind is no longer structured as a parent company with affiliates in multiple markets, nor does it aim merely to take advantage of lower production costs in various countries.

10. Strategies for improving Latin American economies performance.

- It has a different structure and works to a different logic. It is the optimum form of the new planet-wide network organization driven and facilitated by the ICT revolution. This affects the company itself profoundly.

10. Strategies for improving Latin American economies performance.

- The process of globalization has brought with it the hyper-segmentation of three key areas: value chains, global markets and technological capabilities.

10. Strategies for improving Latin American economies performance.

- Each of these areas becomes a complex network with differentiated components.

10. Strategies for improving Latin American economies performance.

- In the structure of each corporation, there is a segmentation of its value network (including suppliers and clients) into components and subcomponents

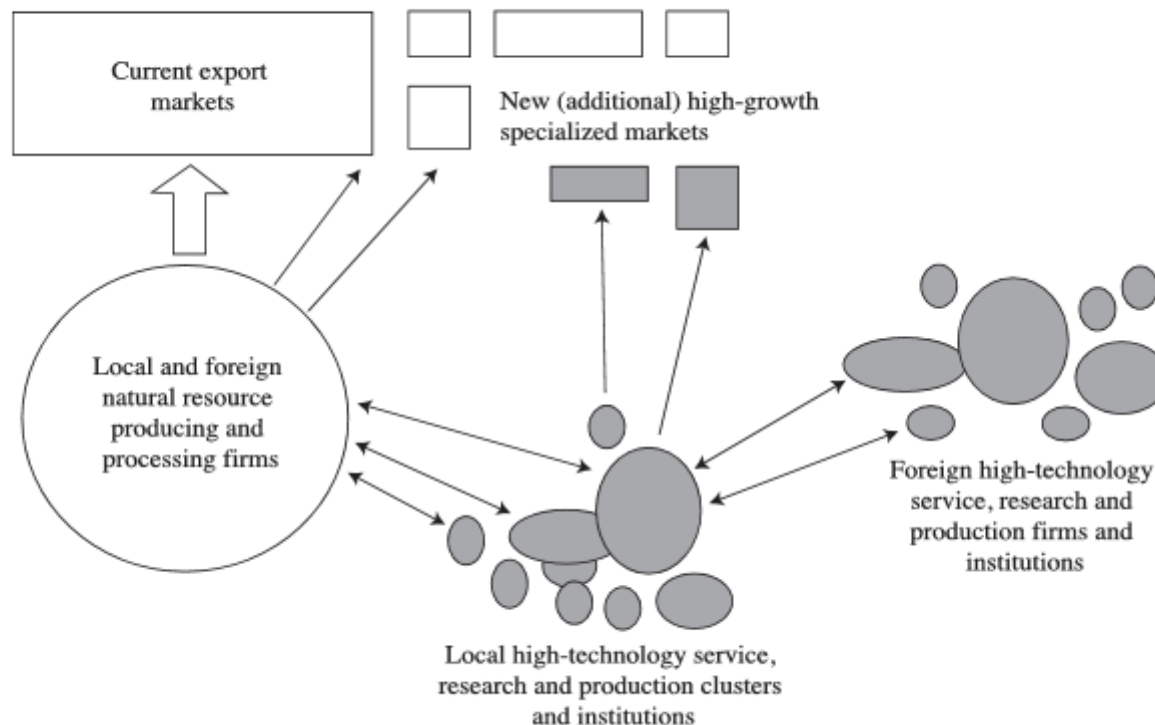
10. Strategies for improving Latin American economies performance.

- These characteristics of the globalization process open specific windows of opportunity for the companies and countries of Latin America.

10. Strategies for improving Latin American economies performance.

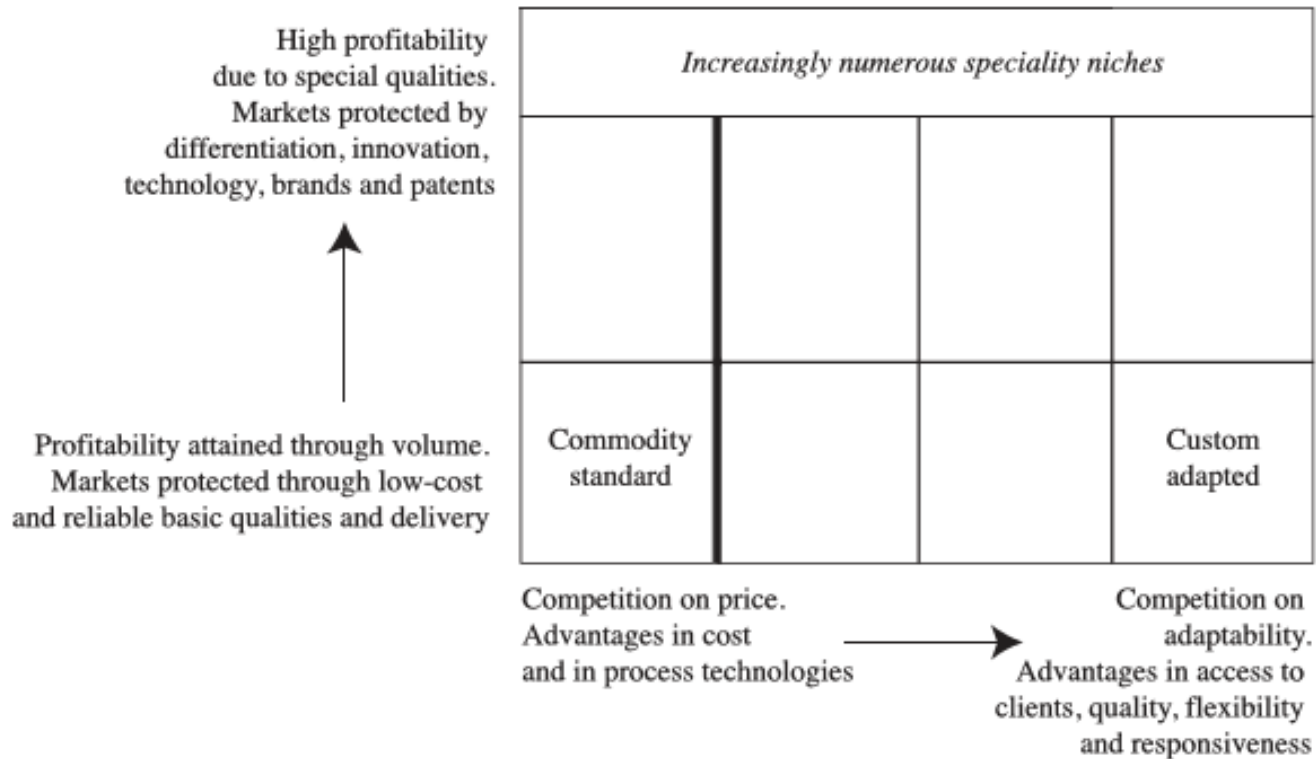
FIGURE 1

Technological development and upgrading of the natural resource export mix



10. Strategies for improving Latin American economies performance.

Hyper-segmentation of markets in the information and communication technologies paradigm



10. Strategies for improving Latin American economies performance.

Some examples of positioning

