

The missing ingredient in the Latin American leader

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Your editorial “The challenges for Latin America’s new left” (FT View, August 8) implies that “delivering strong growth” in Latin America – to match south-east Asian levels – requires “a well educated workforce, stable rules for doing business, efficient courts and infrastructure fit for the 21st century”.

Hurray for all that, nobody could disagree. Conspicuously missing however is the need to change the production structure by reversing the trend of the past two decades towards commodity exports and the FIRE (finance, real estate, insurance) sectors, by boosting the relative share of industrial production.

That requires the state to impart a strategic direction -- a “directional thrust” -- to counter the market’s lock-in to commodities and finance.

In particular it requires the state to manage the effective exchange rate for manufacturers so that they are not crippled in international competition by a market exchange rate overvalued by high commodity demand from China. Doing so has to be a central part of a larger industrial strategy.

The state imparting directional thrust to the market does bring real dangers. But it is a necessary, not sufficient condition for Latin American economies to grow at close to south-east Asian rates.