

Cycles, economic structures and external constraints

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Valorisation Addendum

In compliance with article 22.5 of the “Regulations for obtaining the doctoral degree at Maastricht University” adopted by the Board of Deans, dated 1 September 2018, this addendum discusses the valorization opportunities of this thesis with regard to the social and economic relevance of the thesis, the potential target audiences to whom the research results might be of interest and the innovativeness of this thesis in comparison with existing literature.

The structural components treated in this thesis are directly related to development challenges raised in the Sustainable Development Goals. Goals 8 (Decent work and Economic Growth) and 9 (Industry, Innovation and Infrastructure) pose challenges that demand structural changes, especially in developing countries such as in Latin America, in which basic development problems such as poverty, lack of quality education, and political and economic volatility persist. Development is a main challenge for Latin American, a region in which high instability has been the norm. This unstable environment imposes constraints to economic development, trapping economies in an under-developed situation. This thesis investigates the economic causes behind this instability, expanding the current literature on the topic, and offering alternatives on how to deal with this problem.

We argue in this thesis that there are endogenous and exogenous causes why volatility persists, which is directly related to the laggard economic structures (lack of innovative capacity, and specialization in low tech sectors), that create external constraints to developing economies. The persistence of oscillations has a reinforcement mechanism, pushing the structures towards further specialization, in a vicious causation mechanism.

This diagnostic opens the door for policy recommendations, focused on breaking the vicious causation that traps Latin American economies into under development. In Chapters 2 and 3 we investigate the causes of endogenous volatility by expanding existing Structuralist models. The results point to the need for focusing policies on the supply and the demand side of the economy. On the supply side we propose policies to foster the absorptive and innovative capacity of the Latin American economies, as well as focusing macroeconomic management in the direction of balancing stability with developing a stronger industrial sector, competitive in international terms, such as the strategy followed by East Asian countries. On the demand side, social policies that reduce income inequality are fundamental to reduce poverty, tackle volatility, and create the

necessary effective demand to advance with the development strategy. In this sense, Latin American countries can reduce their external constraints, and at the same time push towards more inclusive societies. However, a central message of this thesis resides in the difficulties in establishing such policies in volatile countries. This is more dramatic considering the scarcity of resources needed for such strategies, which are only available during periods of boom, and that are commonly used to maintain an overvalued exchange rate, improving local living standards in the short run *in lieu* of the competitiveness of the productive structure in the long run, forcing strong adjustments in the recession period.

The originality of the thesis resides in: (1) the expansion of the existing literature, adding structural components to demand side economic models, offering endogenous explanations to the existence of the economic volatility; (2) the new classification of countries by cycle types presented in chapter 1. In this chapter we show the characteristics of regular volatility in Latin America, a region that suffers from short and long run oscillations. It is an original contribution to the literature, dividing countries by their cycle characteristics into different cluster groups; and (3) empirically testing existing models, challenging them theoretically in order to improve them, and their relevance in the literature, as raised in Chapter 4.

The main target of the thesis is academic researchers and policy makers interested in discussing the theoretical channels in which long run development strategies are constrained in Latin America.

In terms of dissemination, the results of this thesis were presented in many academic events. All chapters were presented internally in the UNU-MERIT's Structural Change Research Theme group. The project of this thesis was presented in the Globelics Academy, in Tampere, Finland, 2017. Chapter 1 was presented in the The Ragnar Nurkse Department of Innovation and Governance in Tallin, Estonia, 2017; and in the Globelics Conference 2017, in Athens, Greece, 2017. Chapter 2 was presented in the International Schumpeter Society, in South Korea, 2018; in the Forum for Macroeconomics and Macroeconomic Policies (FMM), in Berlin, 2018. Chapter 3 was presented in the II Lalic conference, in Mexico City, 2018; in the 46th Conference of the Brazilian National Association of Postgraduate Programs in Economics (ANPEC), in Rio de Janeiro, Brazil, 2018, and in in the FMM in Berlin, 2019. Chapter 4 was presented in the IV Brazilian Meeting on Industrial Economics and Economics of Innovation (IV ENEI), in Campinas, 2019.

All the chapters are available as working papers, being currently under review in academic peer-reviewed high impact journals.