Petroleum Restructuring and Development in South America: a thorny relationship

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Abstract

The restructuring of the petroleum industry in South America was part of a wider process of change in the economic functions of the State and the opening of the region´s economies. During the 90's the opening of the regional petroleum markets generated a stable flow of foreign capital, which supported adjustment and stabilization processes in South America.

However, the fragility of the new growth country's regional pattern became evident in the end of the 90's, hindering sustainable growth. As in the first phase of industrialization, such growth was held back by balance of payments problems resulting from the growth of current account deficits. As market opening increased the need for external resources to finance development, these countries also became sensitive to the recent world financial crises and international macroeconomic fluctuations.

The macroeconomic problems gradually affected petroleum markets throughout the region. Those problems have broad impacts in the medium and long-term on the economic dynamics of the countries analyzed, due to the increased importance of petroleum activity in the economies of the region. This is especially true in large producer countries or countries with large petroleum reserves, as fruit of the process of petroleum industry restructuring.

This paper analyzes the consequences of the petroleum restructuring for the development of South American countries and identifies the possible exits for the difficulties encountered. From this perspective, the paper analyzes the effects of the liberalization of oil products prices on the level of internal economic activity and on the evolution of average family incomes. Finally, it examines the effects of upstream investment on the local technology industry and on the balance of payments. The analysis of the exit options considers world macroeconomic tendencies and the regional integration of the oil and energy industries.