

LATIN AMERICA' GROWTH AND GROWTH STRATEGIES IN AN UNCERTAIN WORLD

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THE INTERNATIONAL CONTEXT

CONDITIONS PRIOR TO THE NORTH-ATLANTIC FINANCIAL CRISIS

- ❖ Rapid expansion of international trade in 1986-2007.
- ❖ Booming commodity prices since 2003/04.
- ❖ Significant improvement in external financial conditions, the best since the second half of the 1970s.
- ❖ Significant opportunities for migration, particularly to the U.S. and Spain.

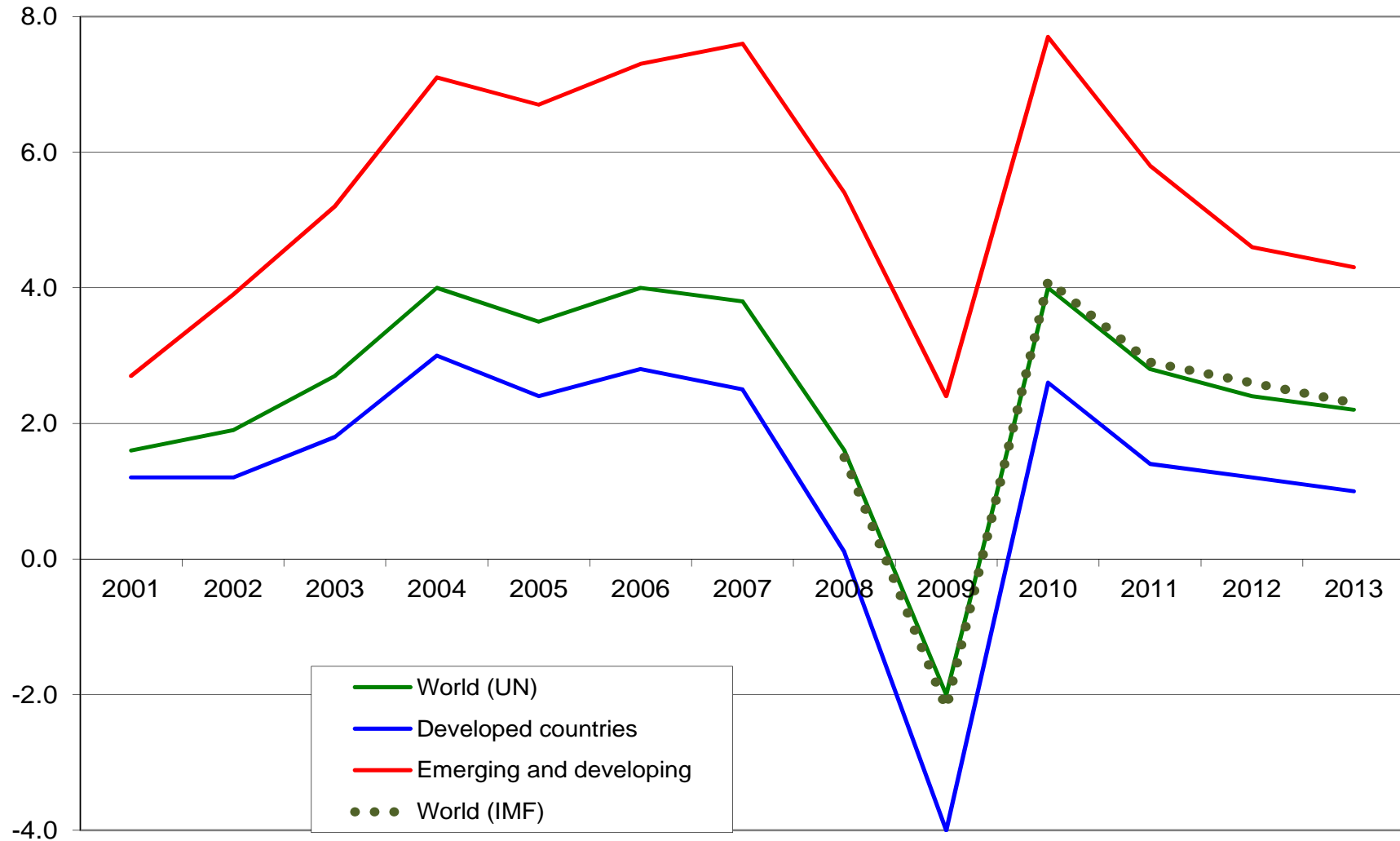
Of these conditions, the first and the last are gone. The second may be weakening. So, only one, favorable external financing, remains in place.

FOUR IMPORTANT ELEMENTS OF THE CURRENT GLOBAL SCENARIO

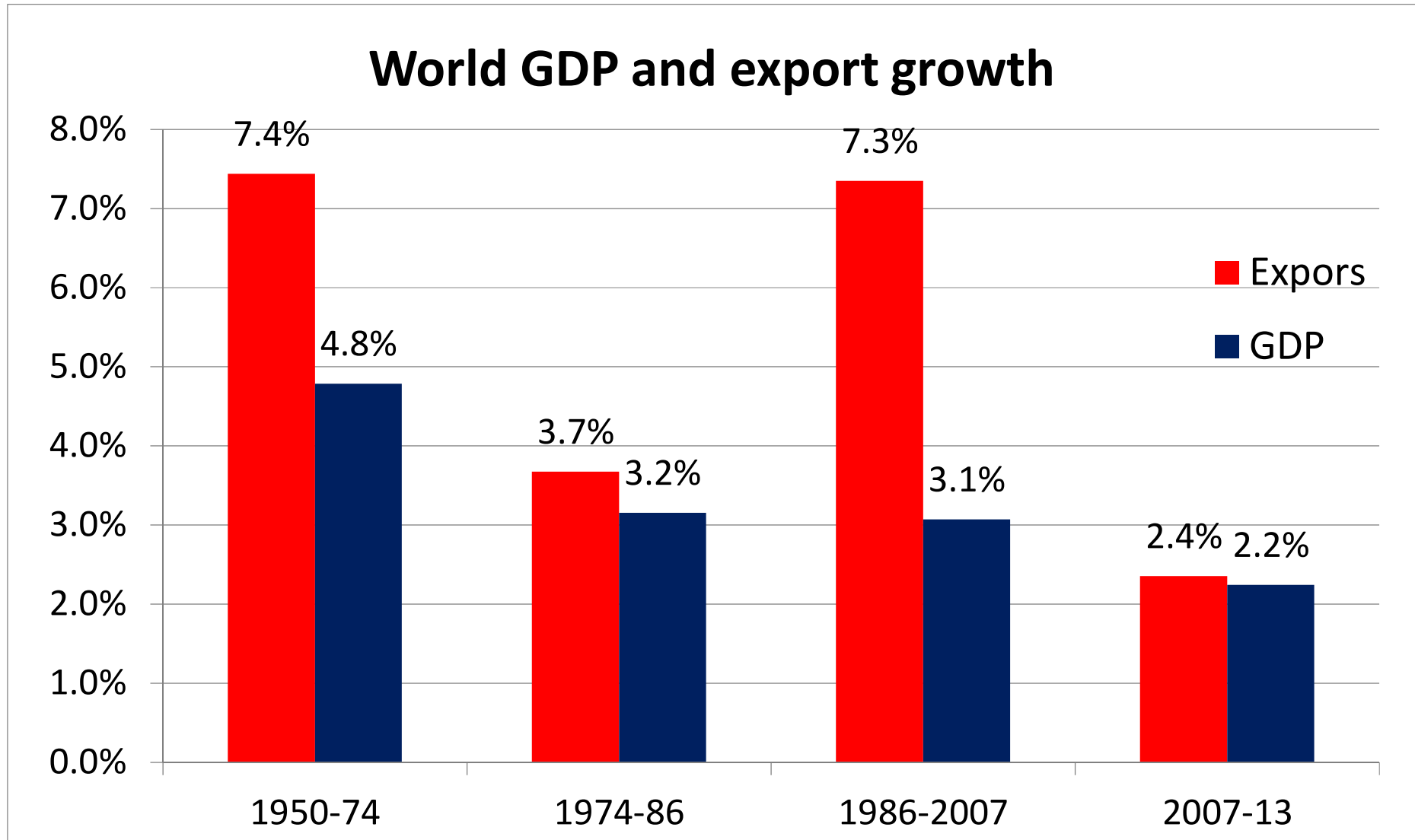
1. Slowdown after the initial post-crisis recovery, which has been stronger in the developing world.
2. Strong slowdown in international trade, and perhaps a new era in global trade.
3. Exceptional period of external financing, which is now partly over.
4. Global imbalances generate pressures on non-oil emerging economies, reflecting asymmetric adjustment and the “currency wars”.

STRONG GROWTH SLOWDOWN AFTER INITIAL POST-CRISIS RECOVERY

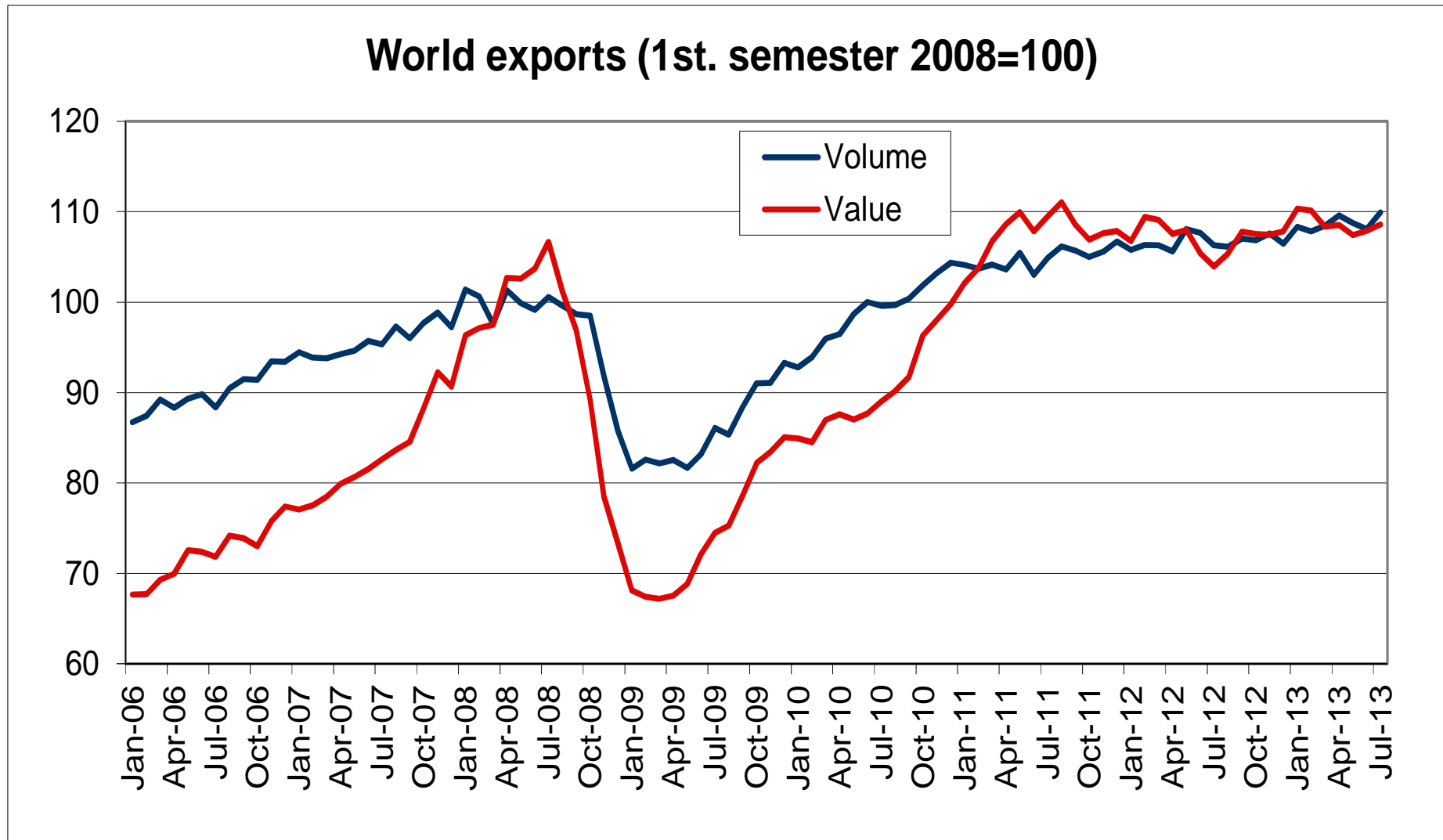
World GDP growth, 2001-2013
(at market exchange rates)



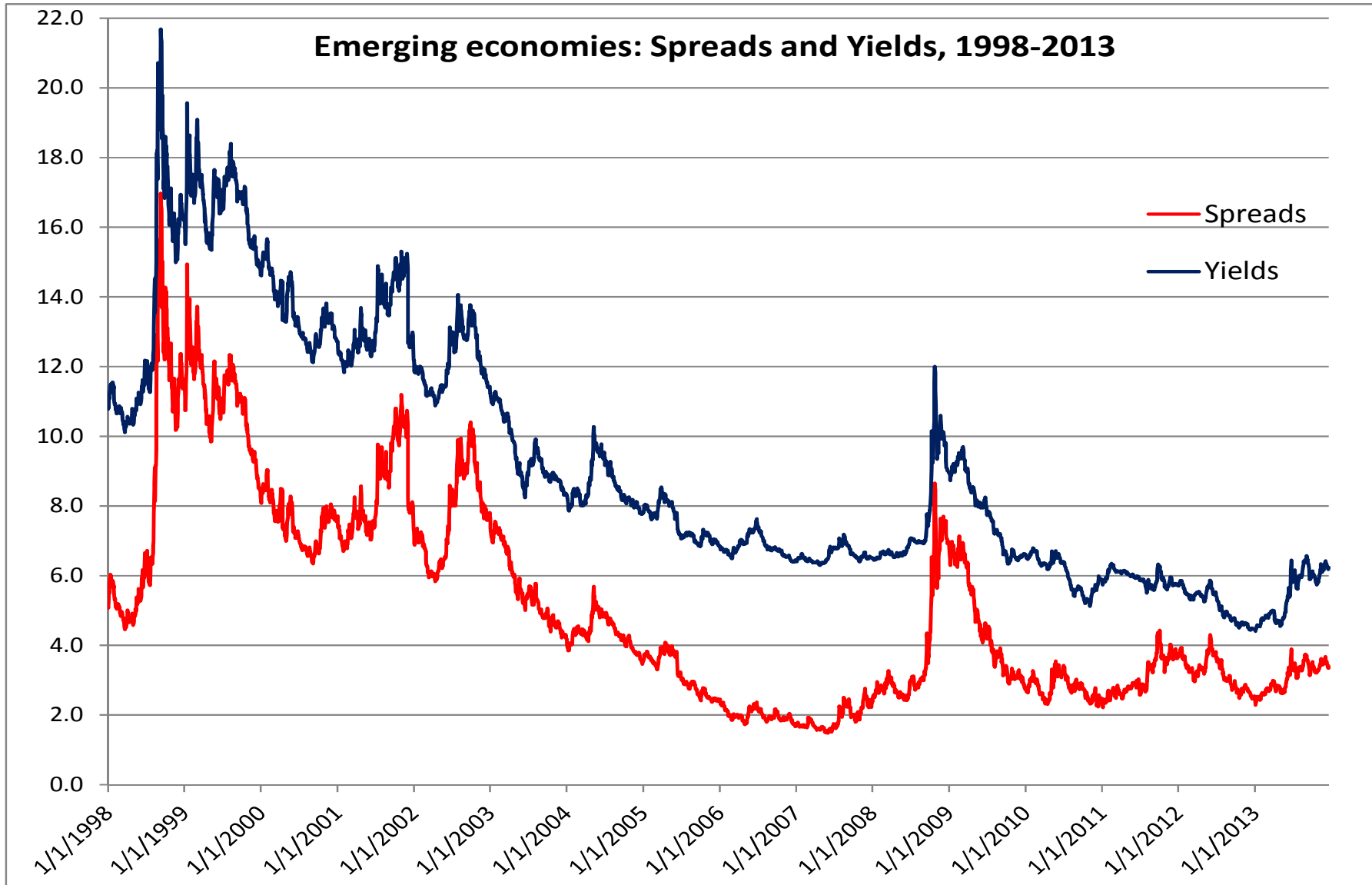
A NEW ERA OF INTERNATIONAL TRADE?



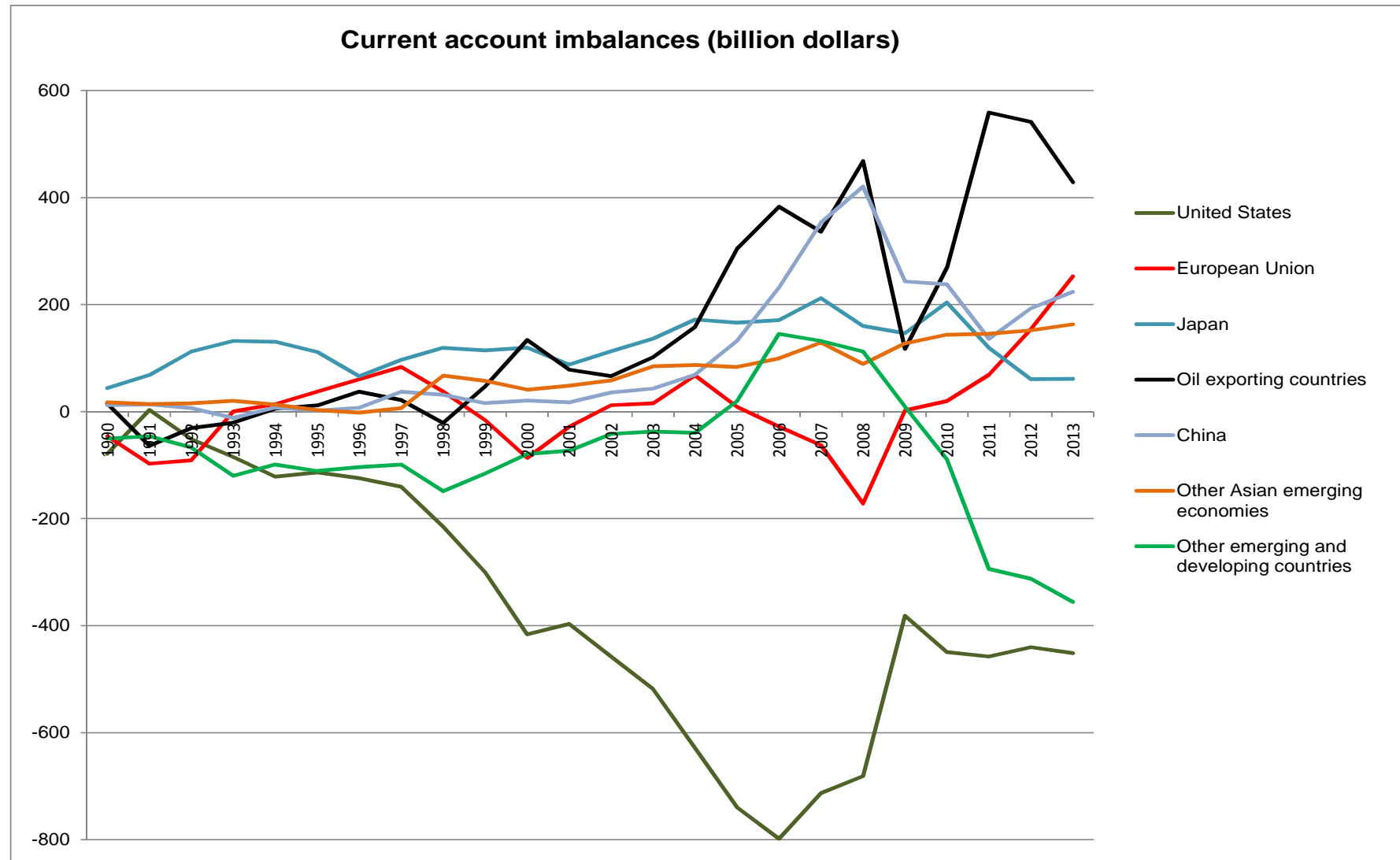
RECENT WORLD TRADE PATTERN: RECOVERY FOLLOWED BY SLOW GROWTH



EXCEPTIONAL PERIOD OF EXTERNAL FINANCING, NOW PARTLY OVER



CHANGING COMPOSITION OF GLOBAL IMBALANCES



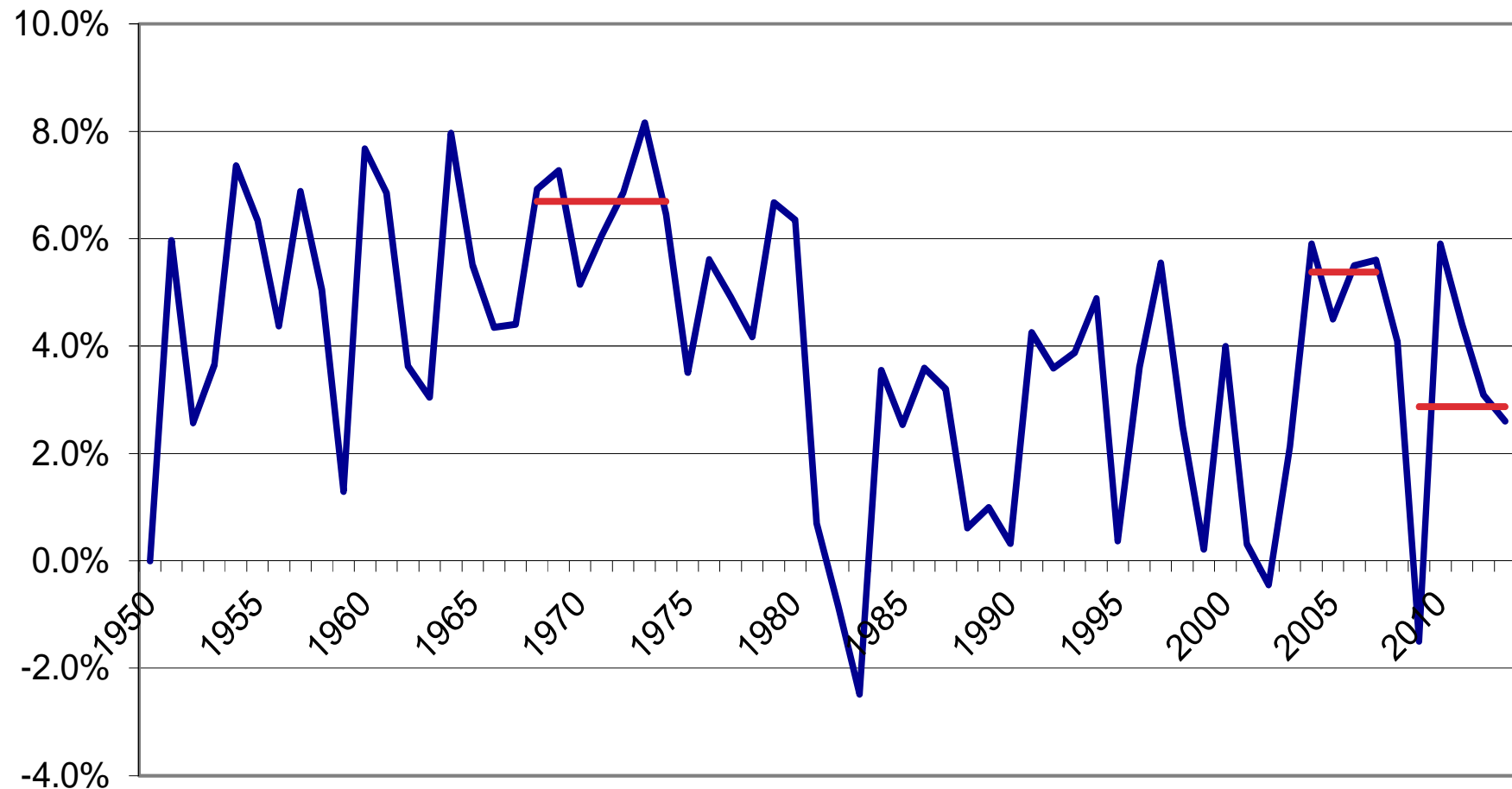
LATIN AMERICA'S ECONOMIC PERFORMANCE

THE RECENT L.A. CYCLE: WE SHOULD BE CAUTIOUS ABOUT THE DIAGNOSIS

- ❖ Growth in 2004-07 was the best in three decades, supported by exceptional external conditions.
- ❖ It was accompanied by a significant reduction in poverty and an improvement in income distribution
- ❖ The crisis hit hard, but the recovery was strong, though uneven across the region.
- ❖ Counter-cyclical monetary and credit policies played a role, but less so counter-cyclical fiscal policies.
- ❖ Still, growth since the crisis has been weak, following a pattern of weak and volatile economic growth, and has not been particularly dynamic.

RECENT CYCLE: STRONG GROWTH, STRONG CRISIS AND RAPID BUT SHORT RECOVERY

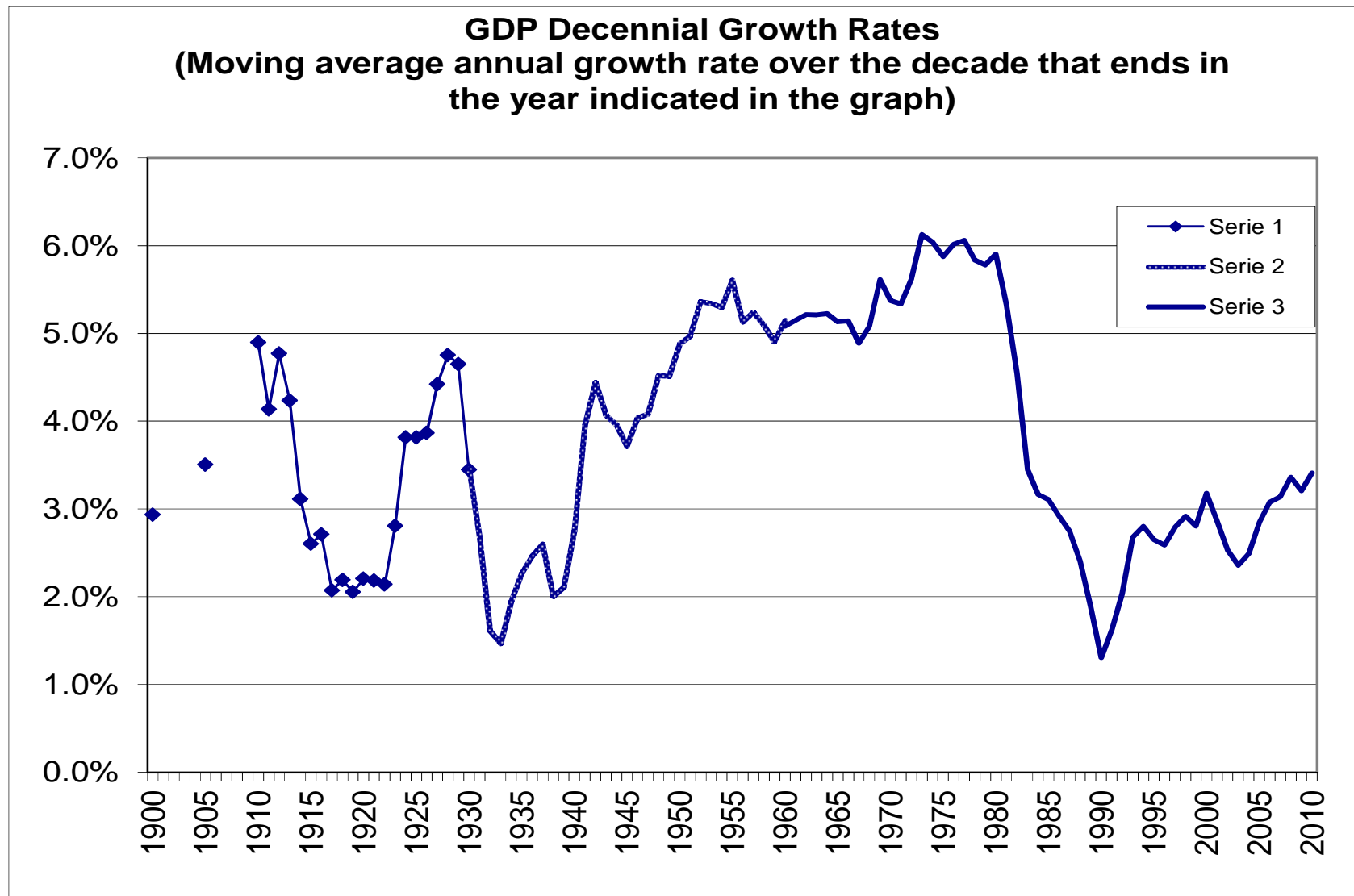
Latin America: GDP growth, 1950-2013



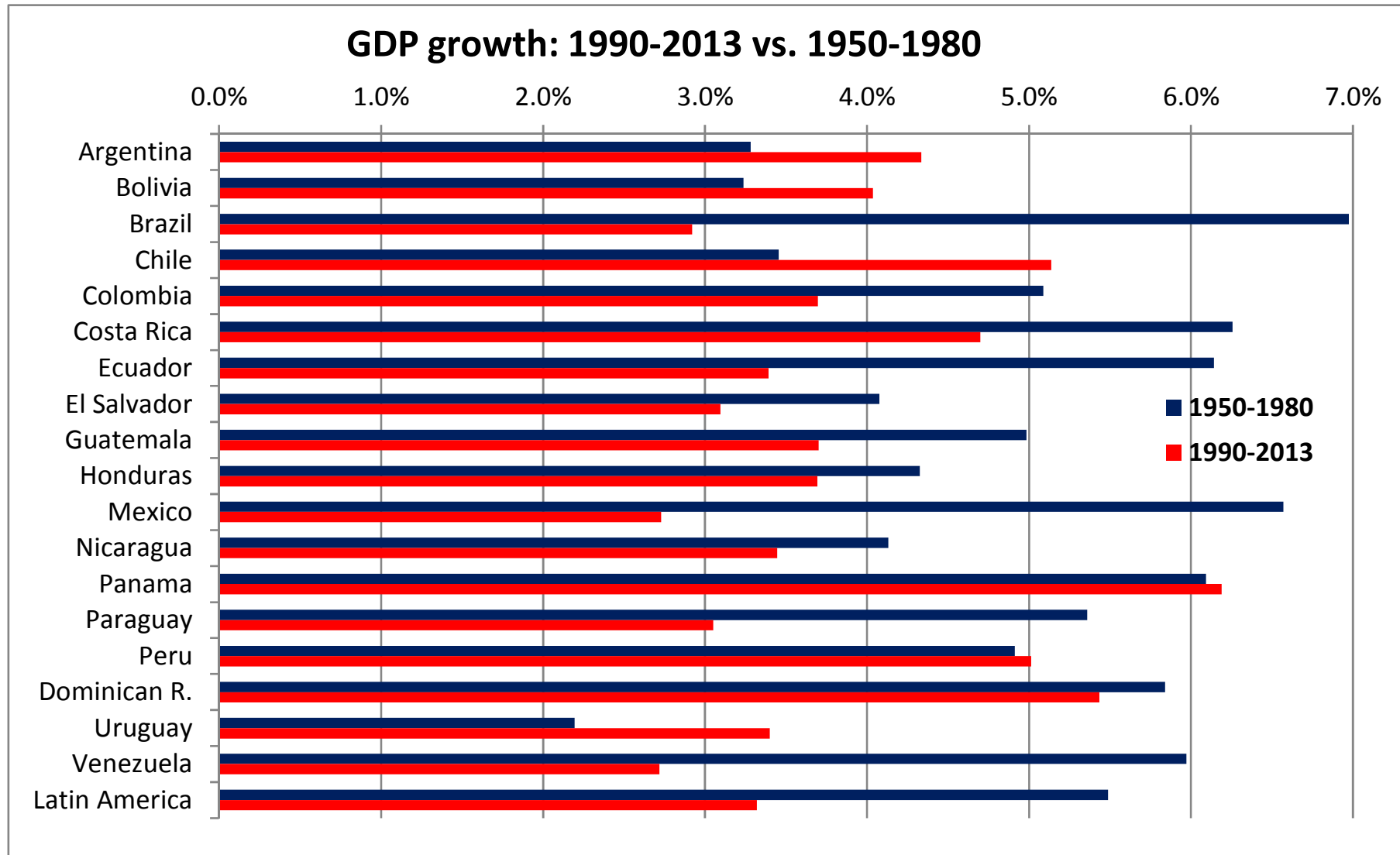
THIS FITS WITHIN A PATTERN OF WEAK AND VOLATILE GROWTH

GDP growth: dynamics and volatility			
Weighted average	Average growth	Standard deviation	Coefficient of variation
1950-1980	5.5%	1.7%	0.31
1990-2013	3.3%	2.2%	0.67
Simple average			
1950-1980	4.9%	3.7%	0.75
1990-2013	3.9%	3.2%	0.80

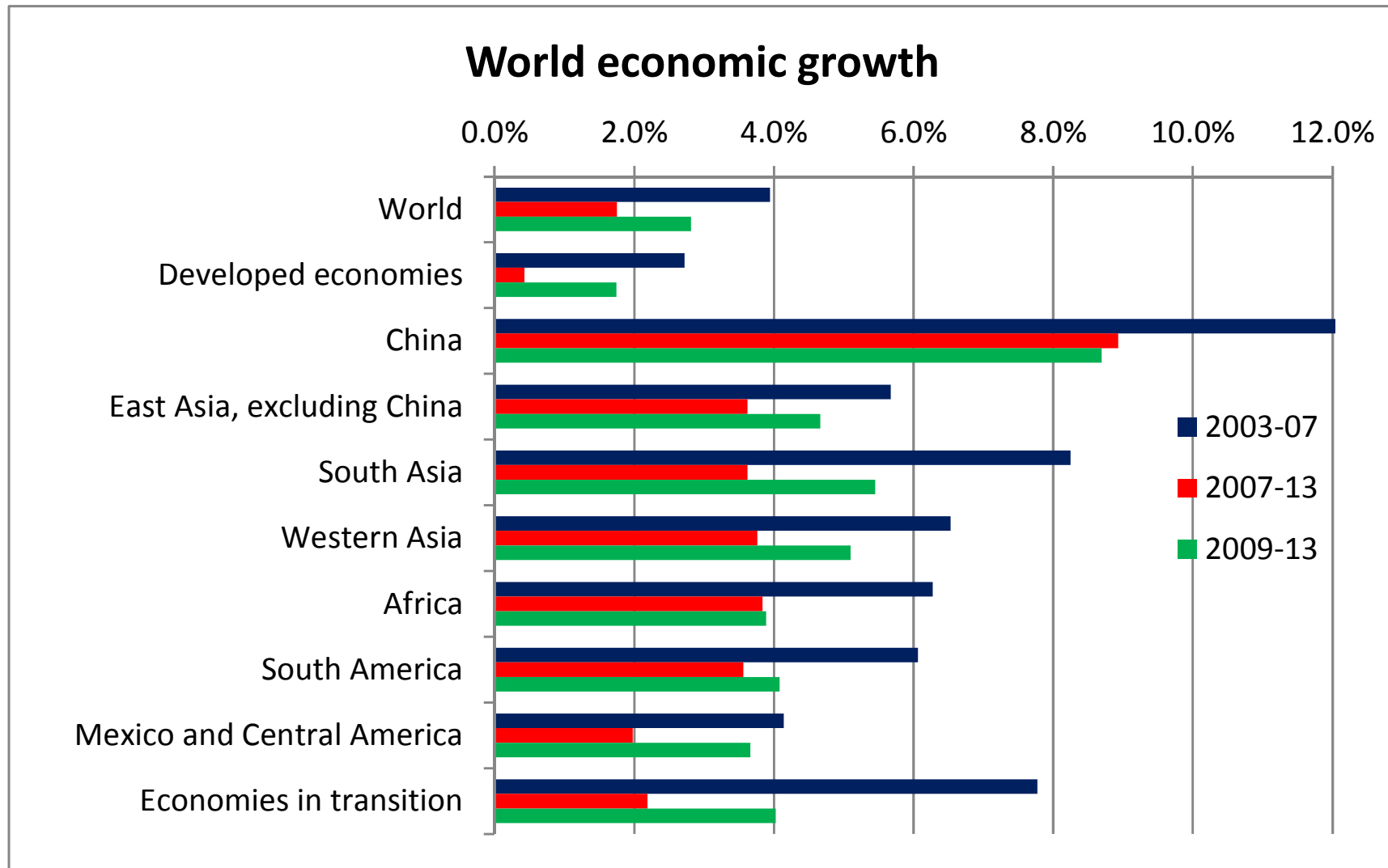
LONG-TERM GROWTH HAS BEEN DISAPPOINTING (1)



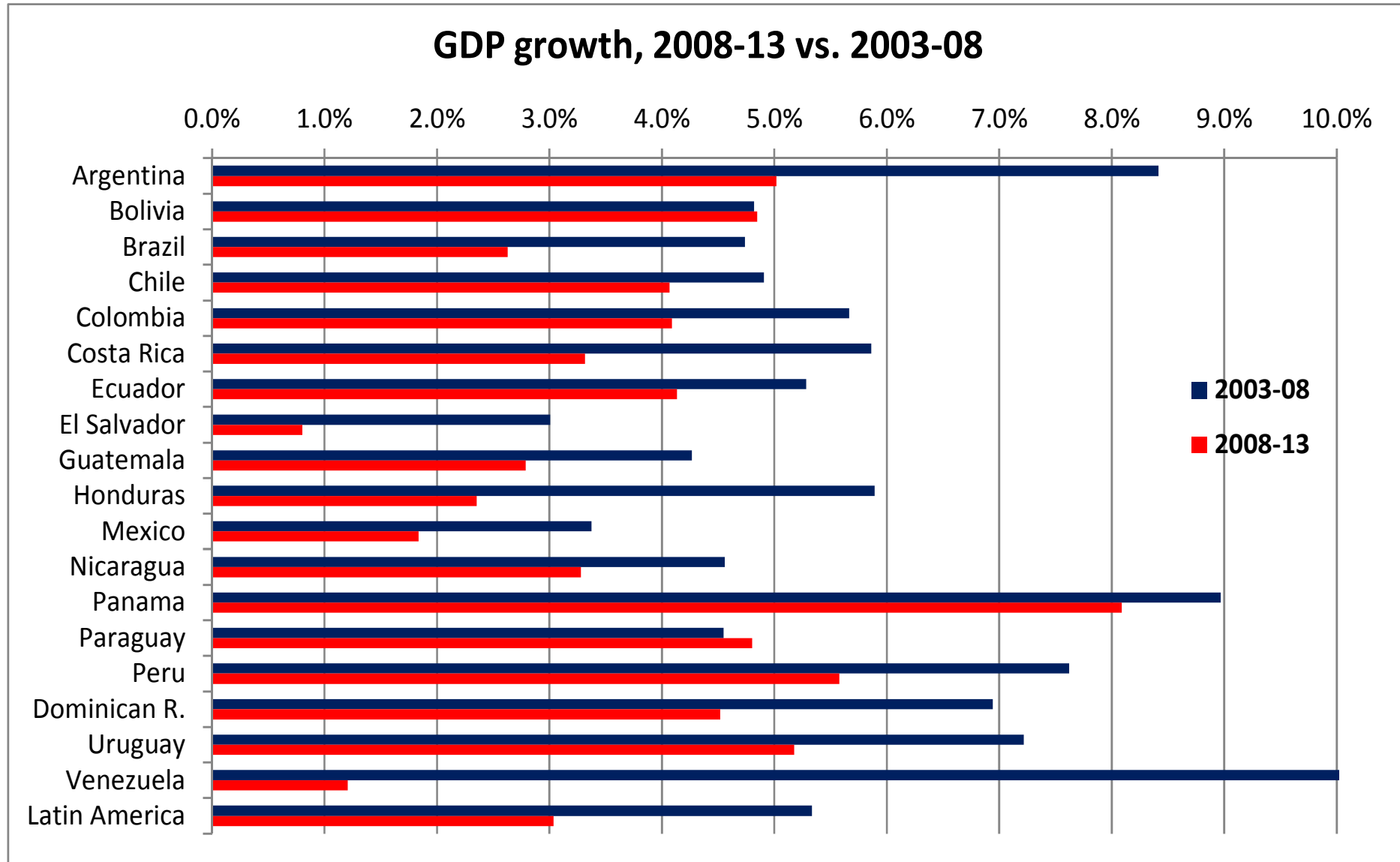
LONG-TERM GROWTH HAS BEEN DISAPPOINTING (2)



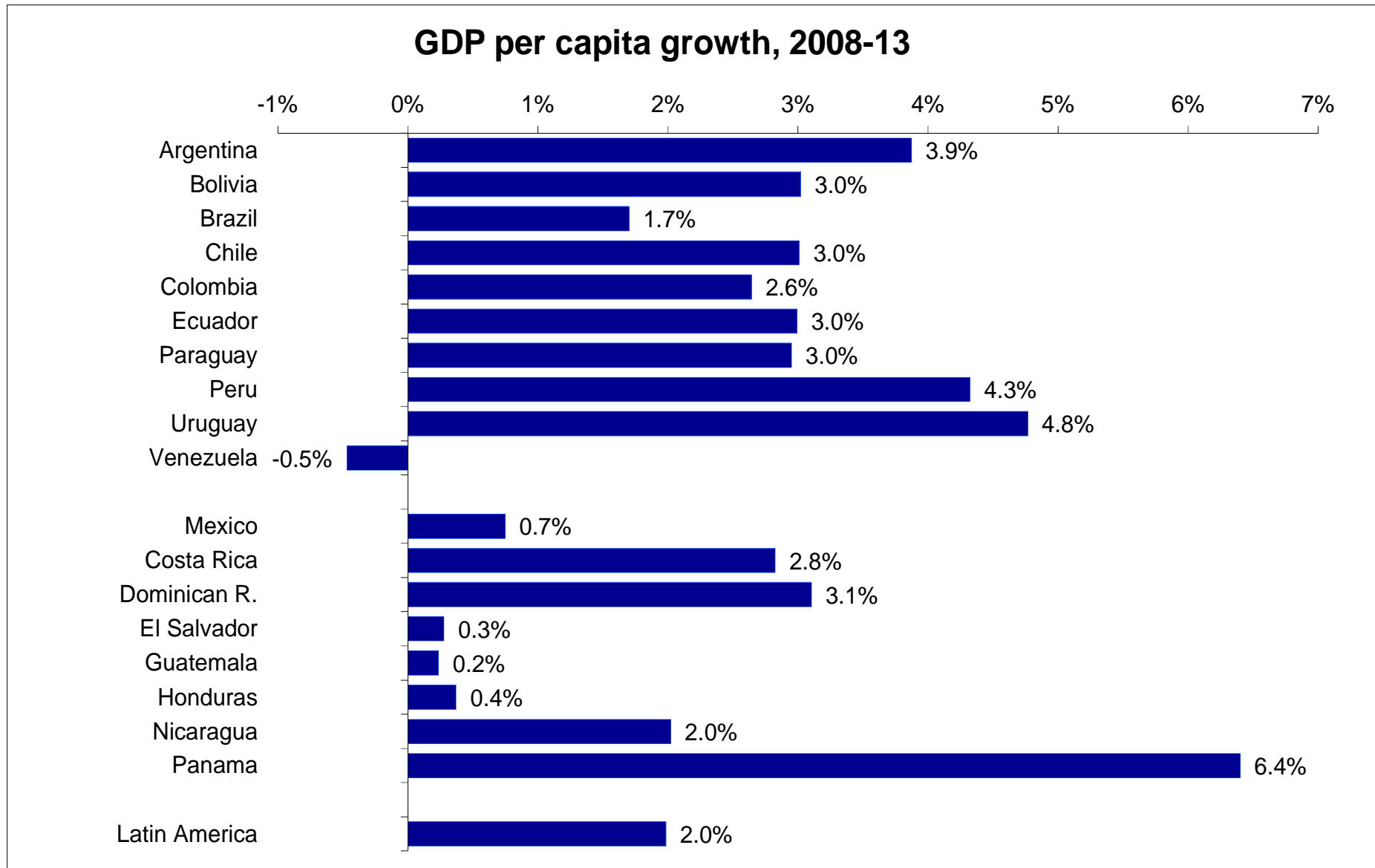
LATIN AMERICA'S GROWTH HAS NOT BEEN PARTICULARLY REMARKABLE AT THE GLOBAL LEVEL



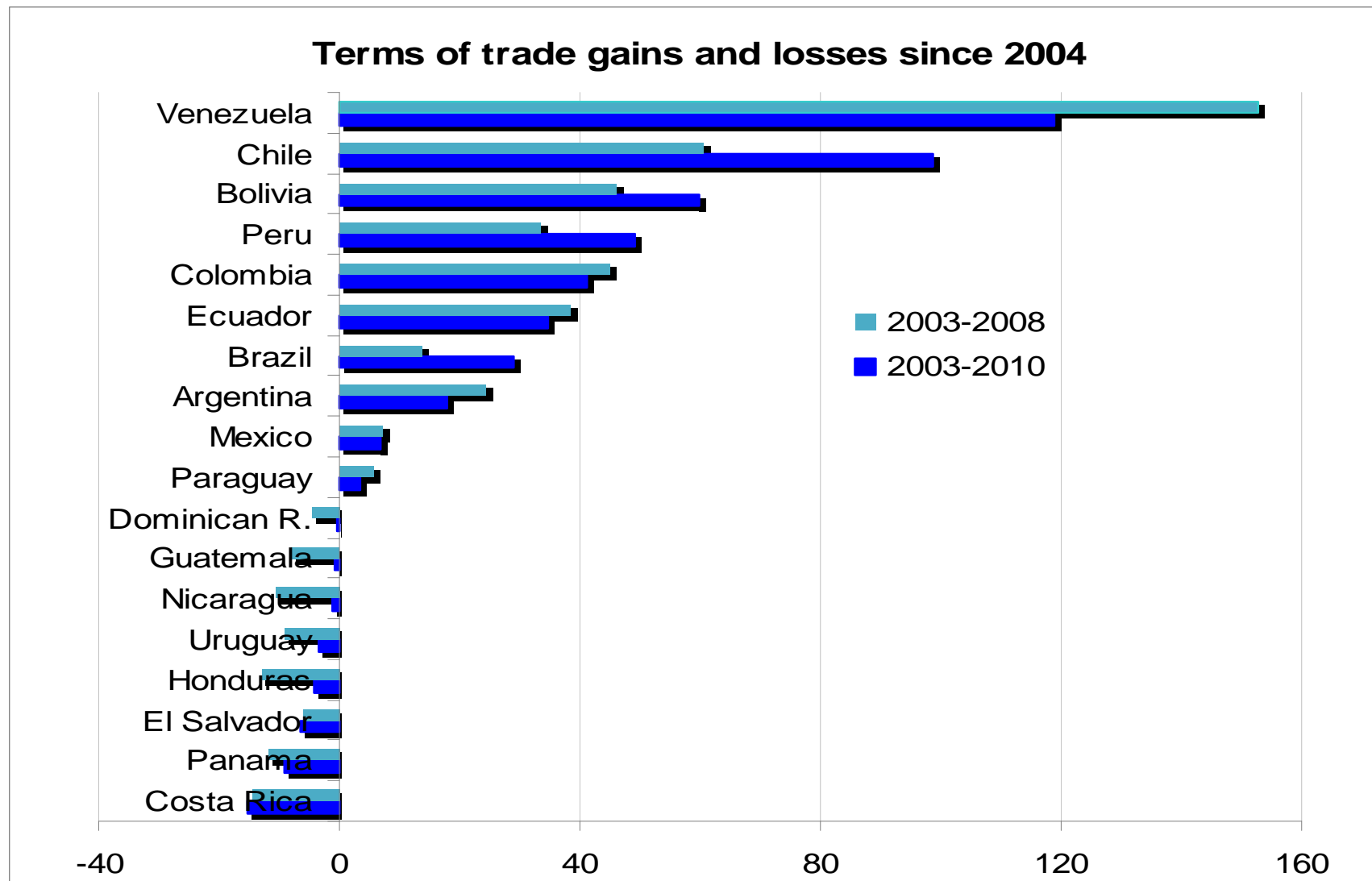
SINCE 2008, BROAD-BASED SLOWDOWN....



... WITH A NORTH-SOUTH PATTERN



THIS REFLECTS IN PART TOFT MOVEMENTS, WHICH HAVE BEEN PARTICULARLY GOOD FOR ENERGY AND MINERAL-EXPORTING ECONOMIES

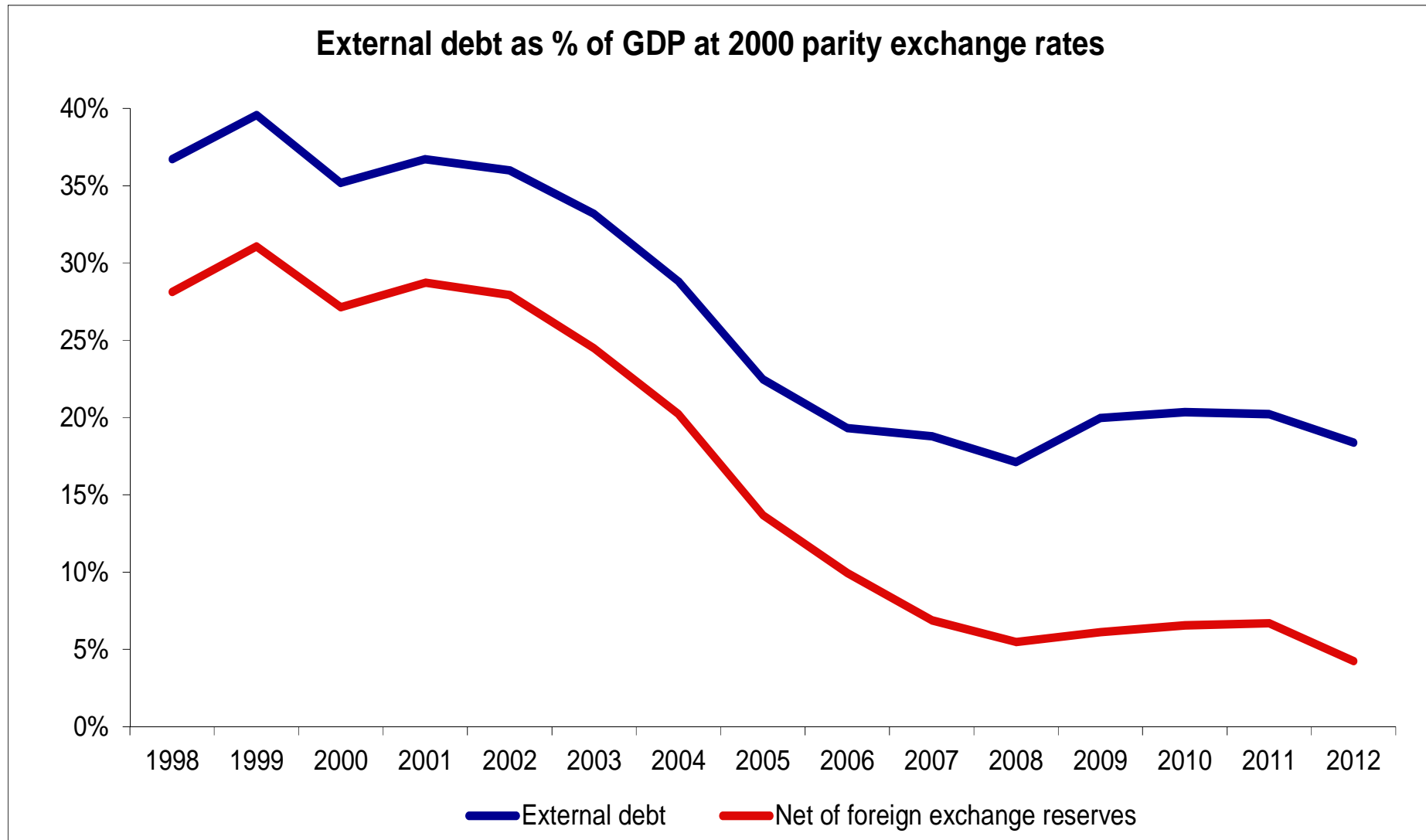


ECONOMIC PROSPECTS

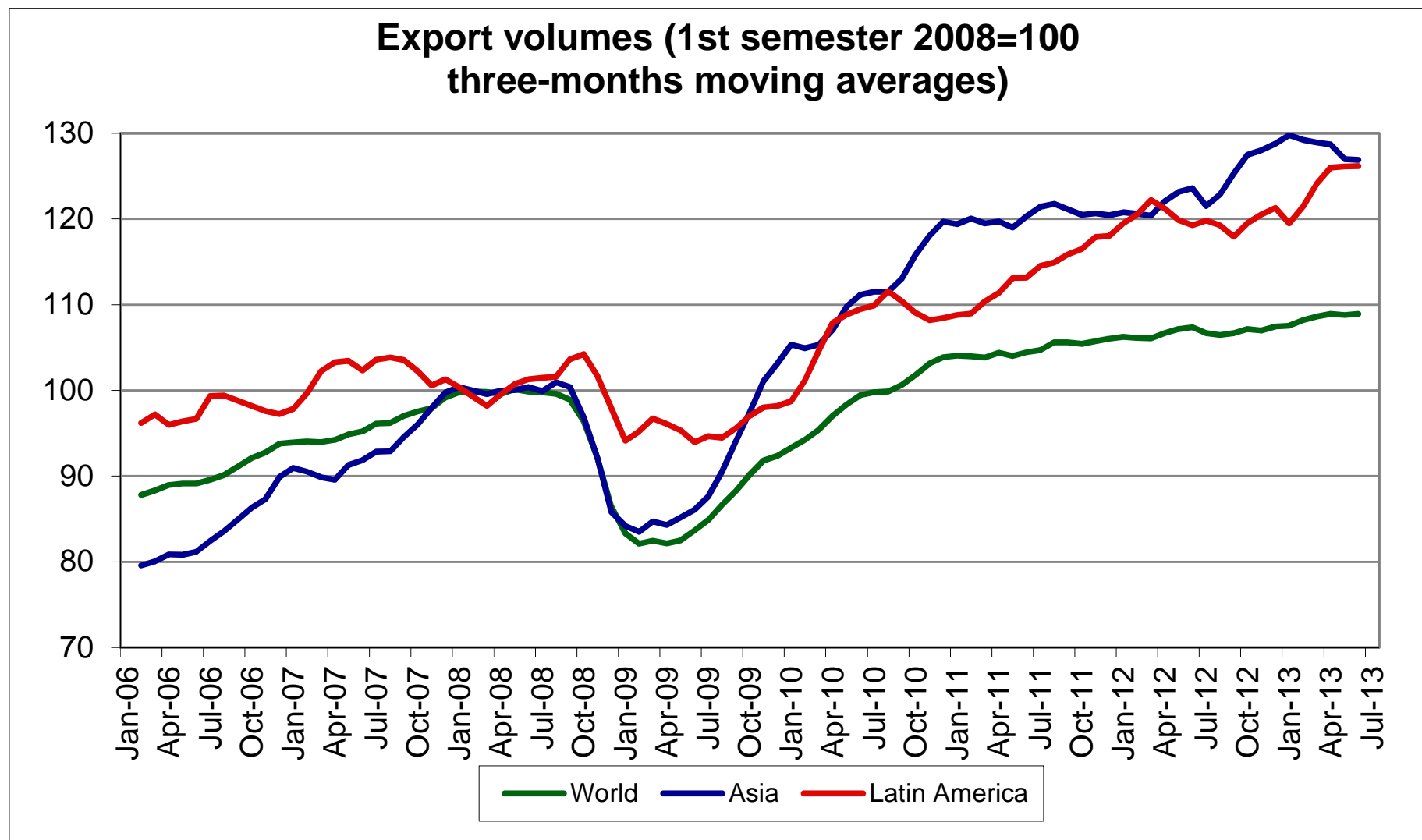
SUSTAINING GROWTH: BASIC STRENGTHS

- ❖ Macroeconomic policy space provided by lower levels of external indebtedness, mixed with stronger domestic policies (with variations)
- ❖ Export recovery, based on commodities + integration with Asia (particularly China), now over.
- ❖ Still exceptional terms of trade.
- ❖ Good access to external financing, though conditions may be changing.
- ❖ High investment rates, by historical standards
- ❖ Fair social trends, which generate dynamic domestic consumption markets.

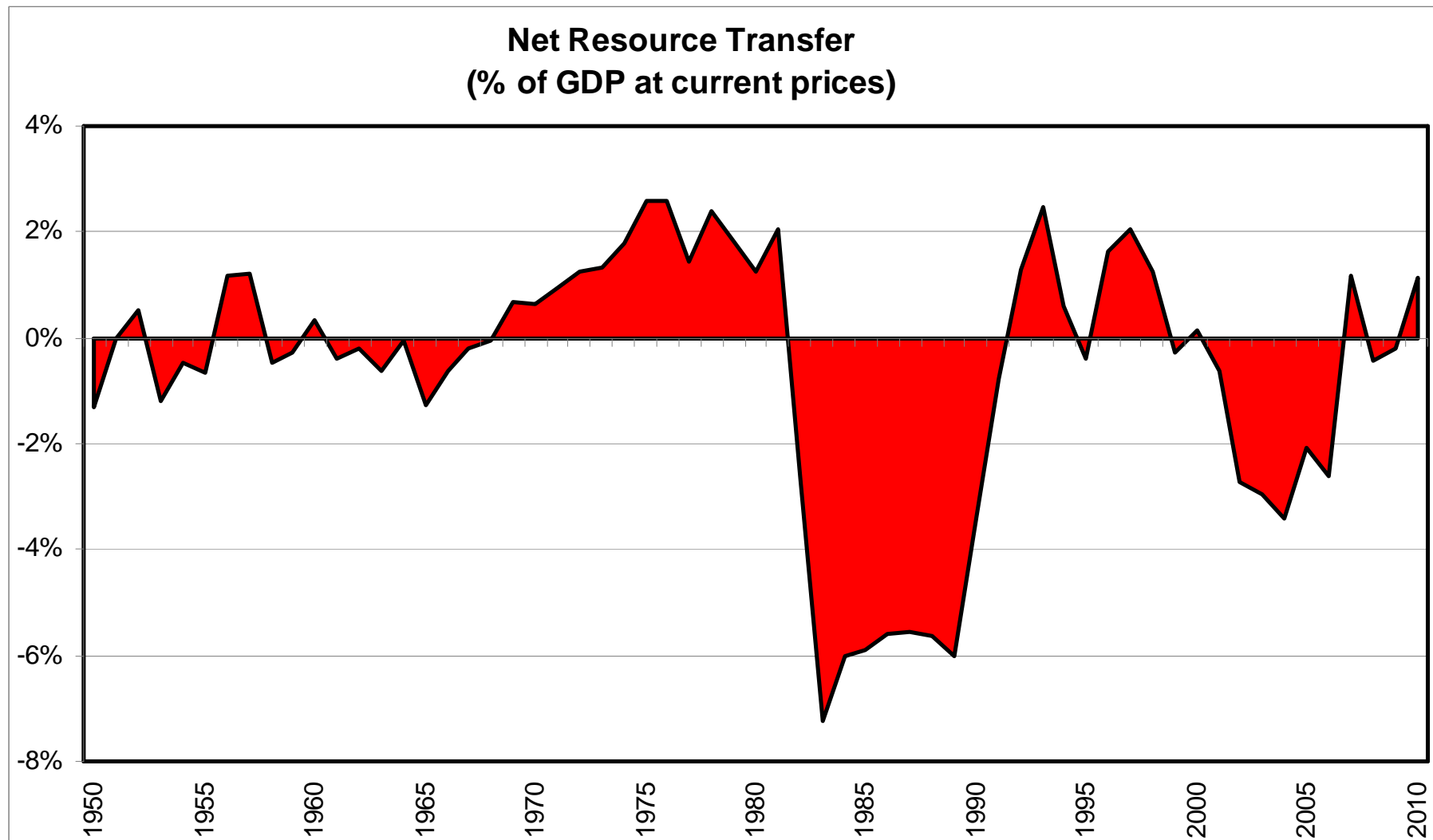
THE REALLY BRIGHT SPOT: SHARP REDUCTION IN NET DEBT RATIOS



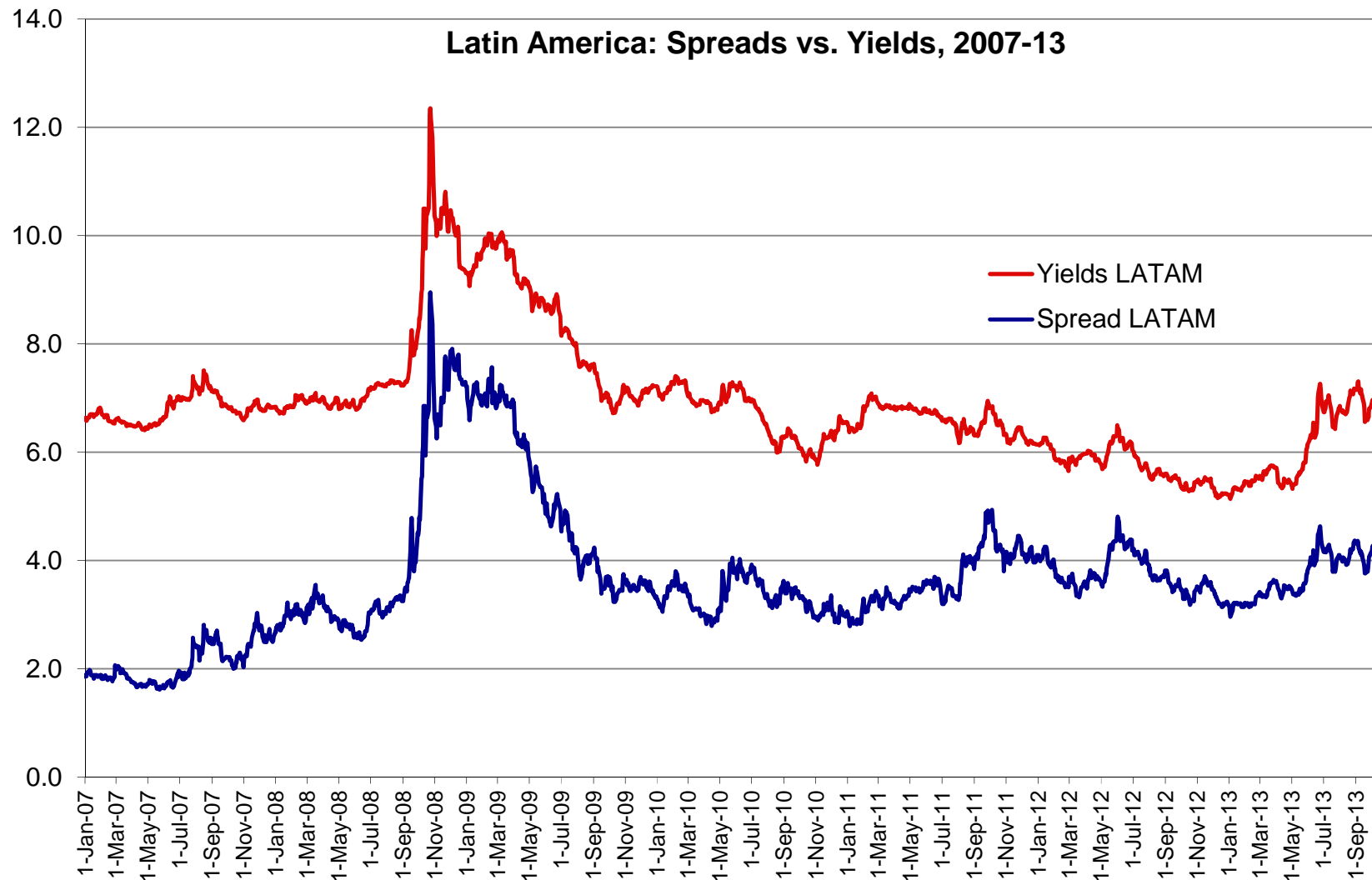
STRONGEST TRADE RECOVERY, AFTER ASIA



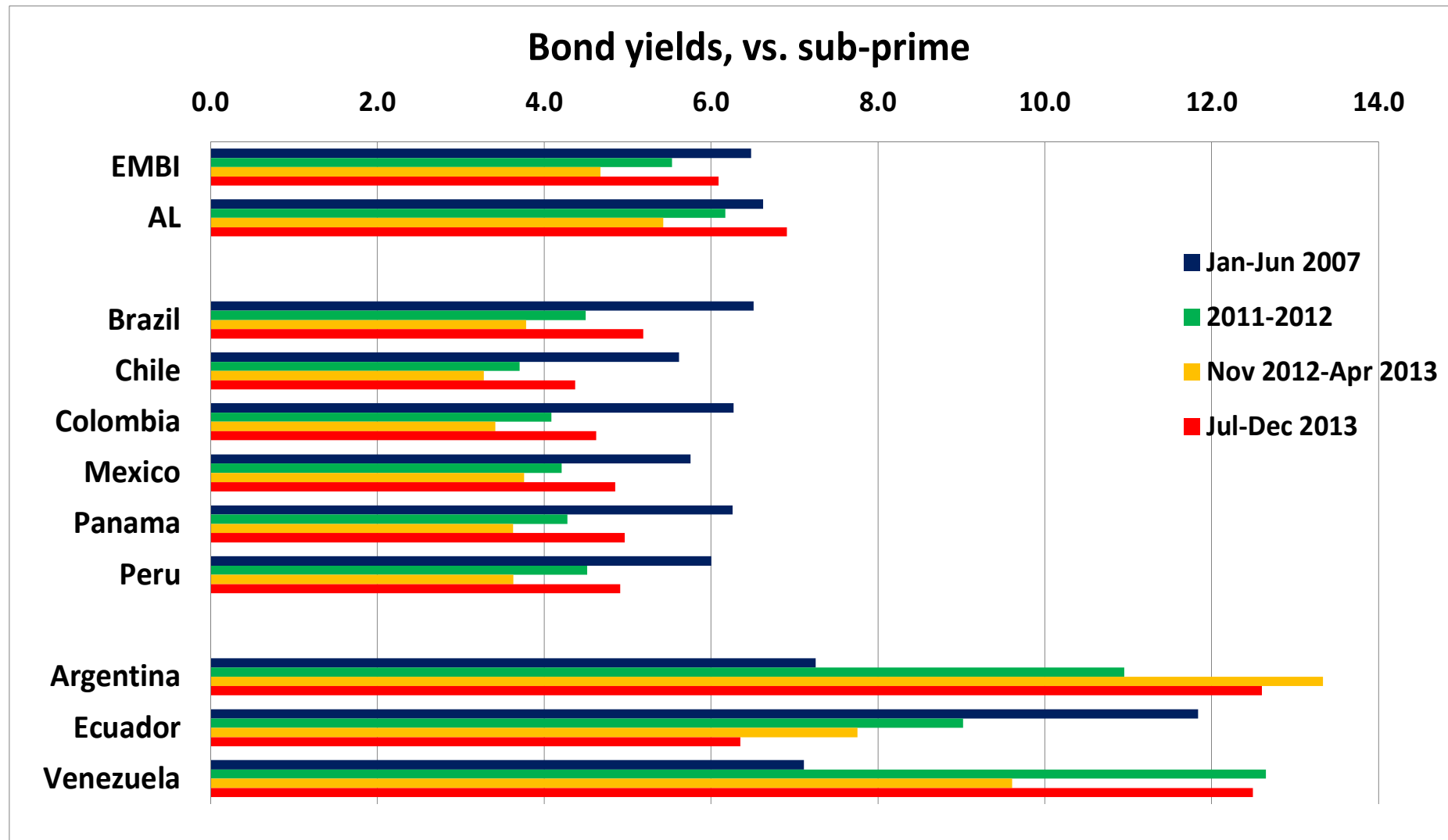
CAPITAL ACCOUNT SHOCKS HAVE BEEN INCREASINGLY WEAKER



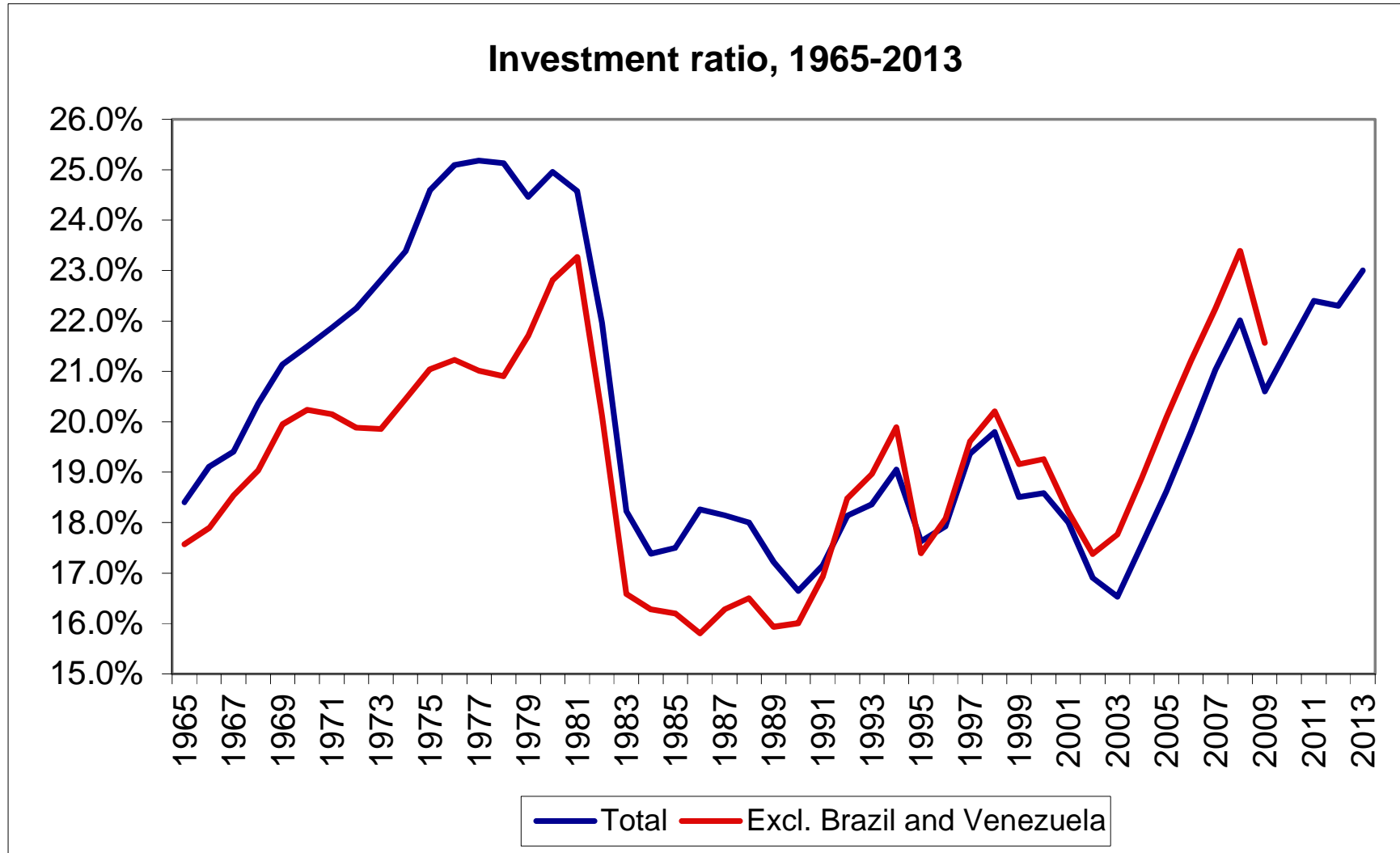
BUT ACCESS TO CAPITAL MARKETS HAS WORSENEDED SINCE MAY 2013...



...BUT IT CONTINUES TO BE GOOD FOR SEVERAL COUNTRIES



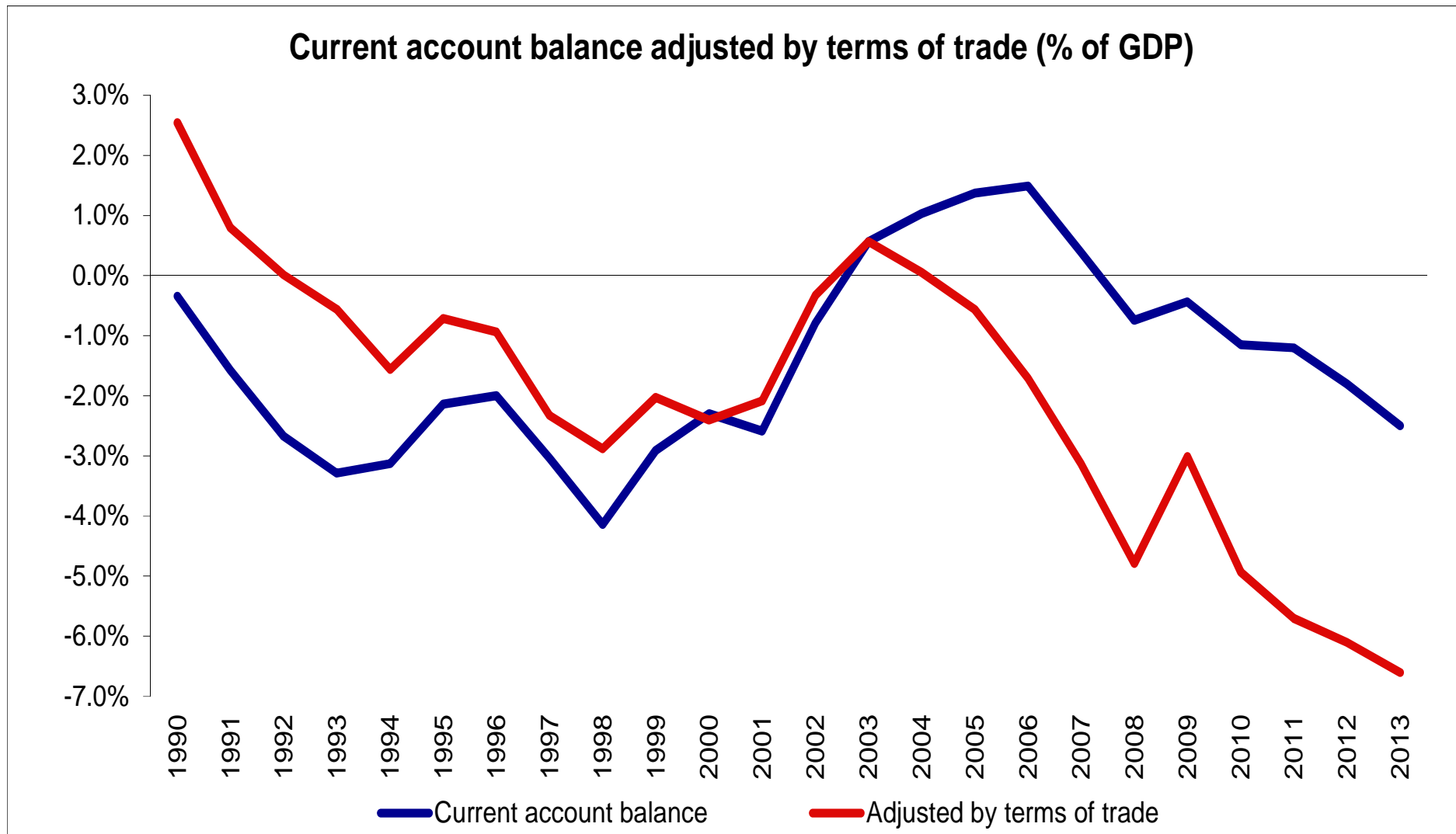
INVESTMENT RATES ARE HIGH, BY LATIN AMERICAN STANDARDS (WITH BRAZIL AND VENEZUELA AS EXCEPTIONS)



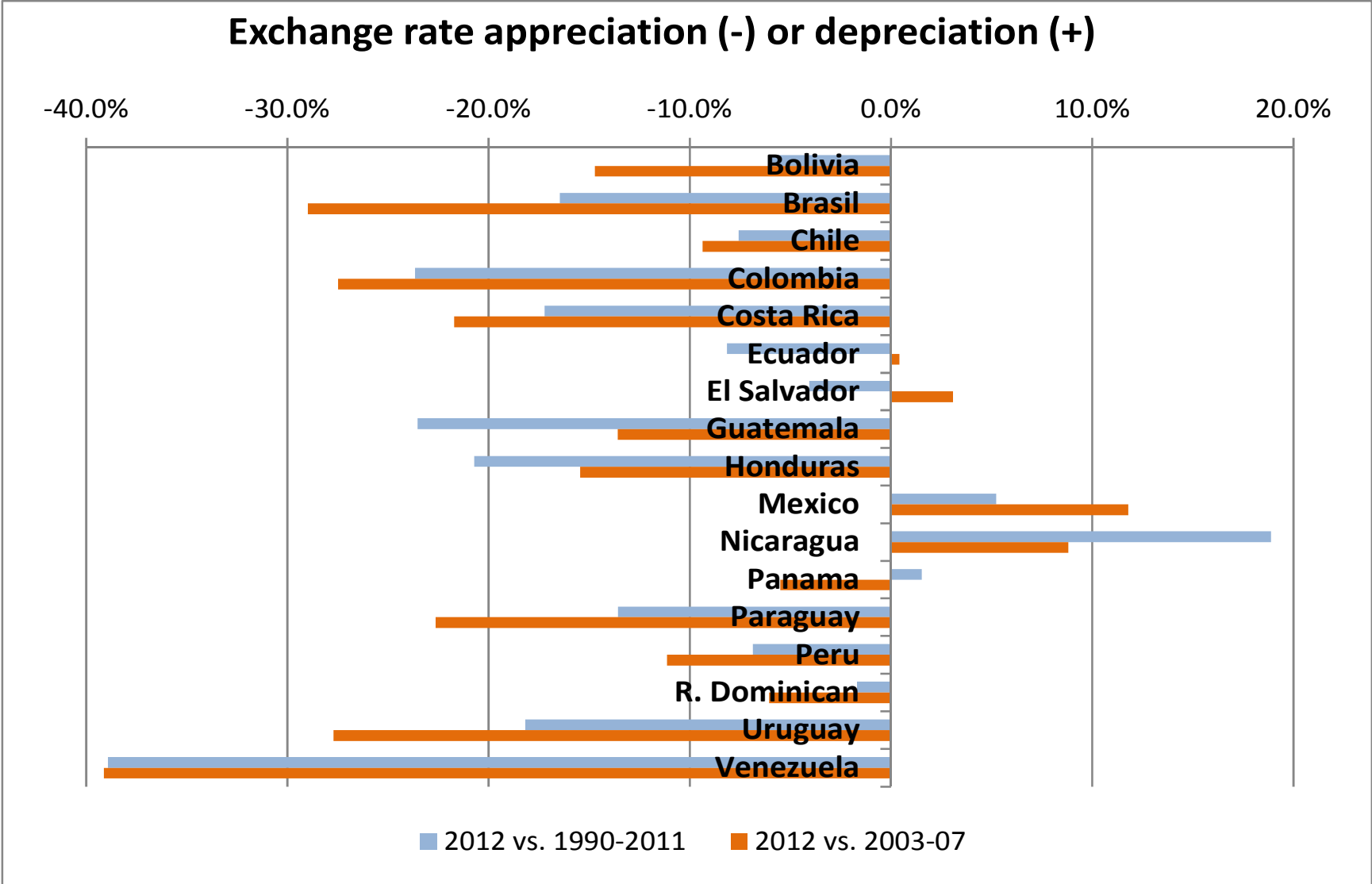
SUSTAINING GROWTH: TWO TROUBLESOME ISSUES

- Macroeconomic vulnerabilities:
 - ✓ Underlying current account deficits, and dominant pro-cyclical spending patterns.
 - ✓ Risks associated with appreciation associated with the management of massive capital inflows.
 - ✓ In most countries, the risk of the “Dutch disease” is much stronger than that of a financial crisis.
- Weak world trade trends mixed with Latin America’s structural problems.
 - ✓ Weak recovery of world trade, which is again stagnant. The value of LA exports stagnates in 2013
 - ✓ A now old premature de-industrialization, to which the re-primarization of exports has been added.
 - ✓ But, particular, accumulated technological gaps

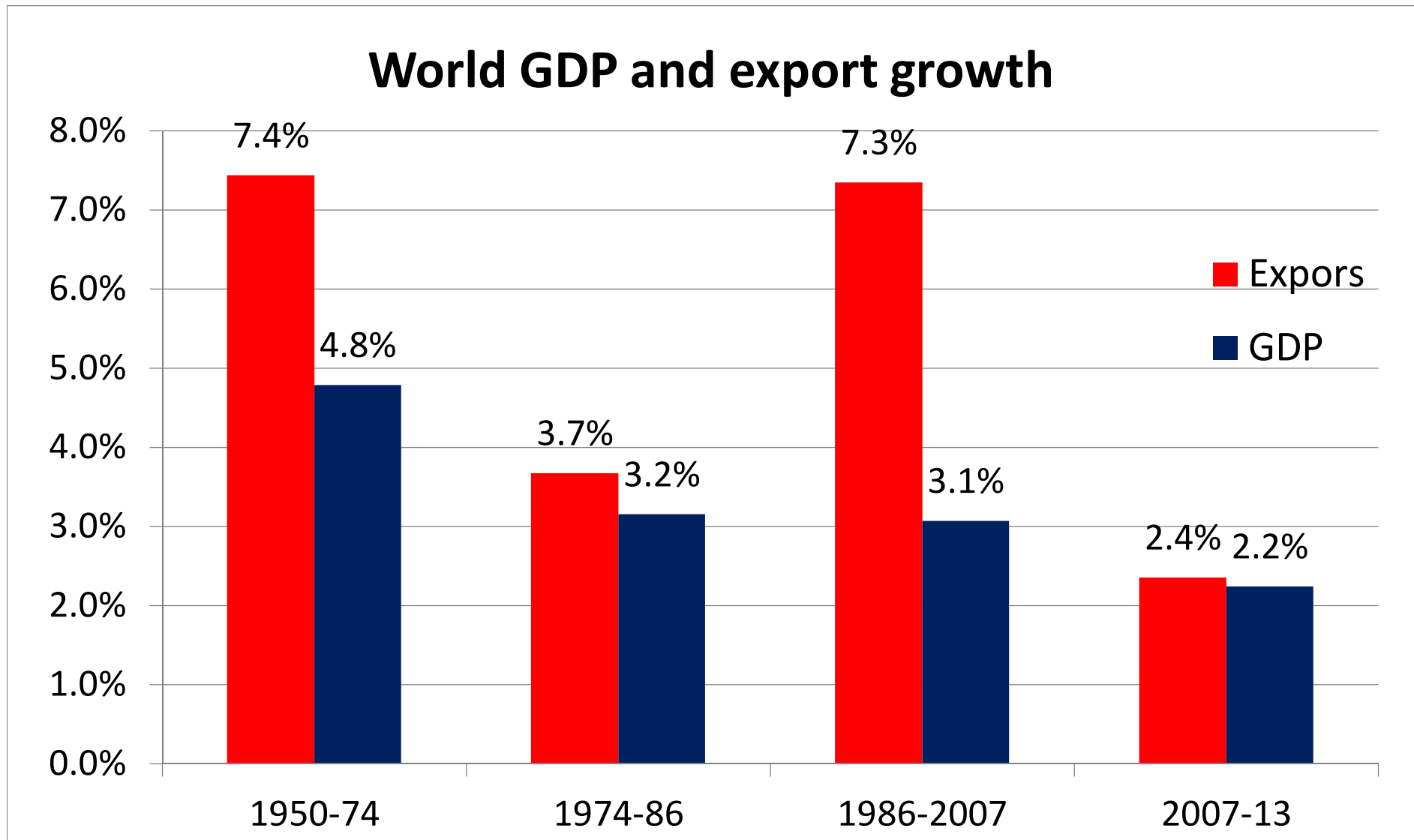
LATIN AMERICA HAS BEEN SPENDING THE TERMS OF TRADE BOOM



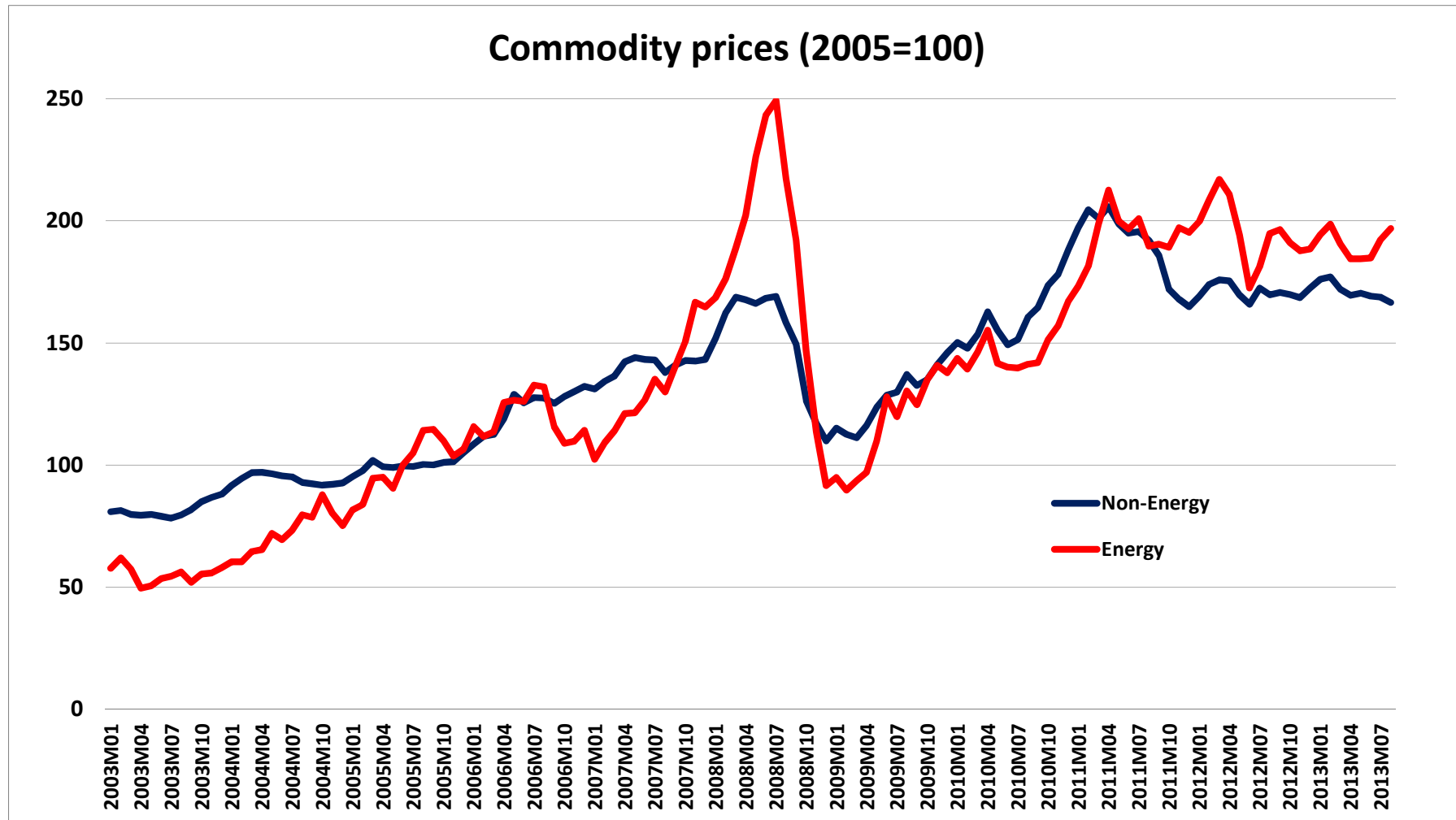
EXCHANGE RATE OVERVALUATION WAS A FAIRLY GENERALIZED RISK



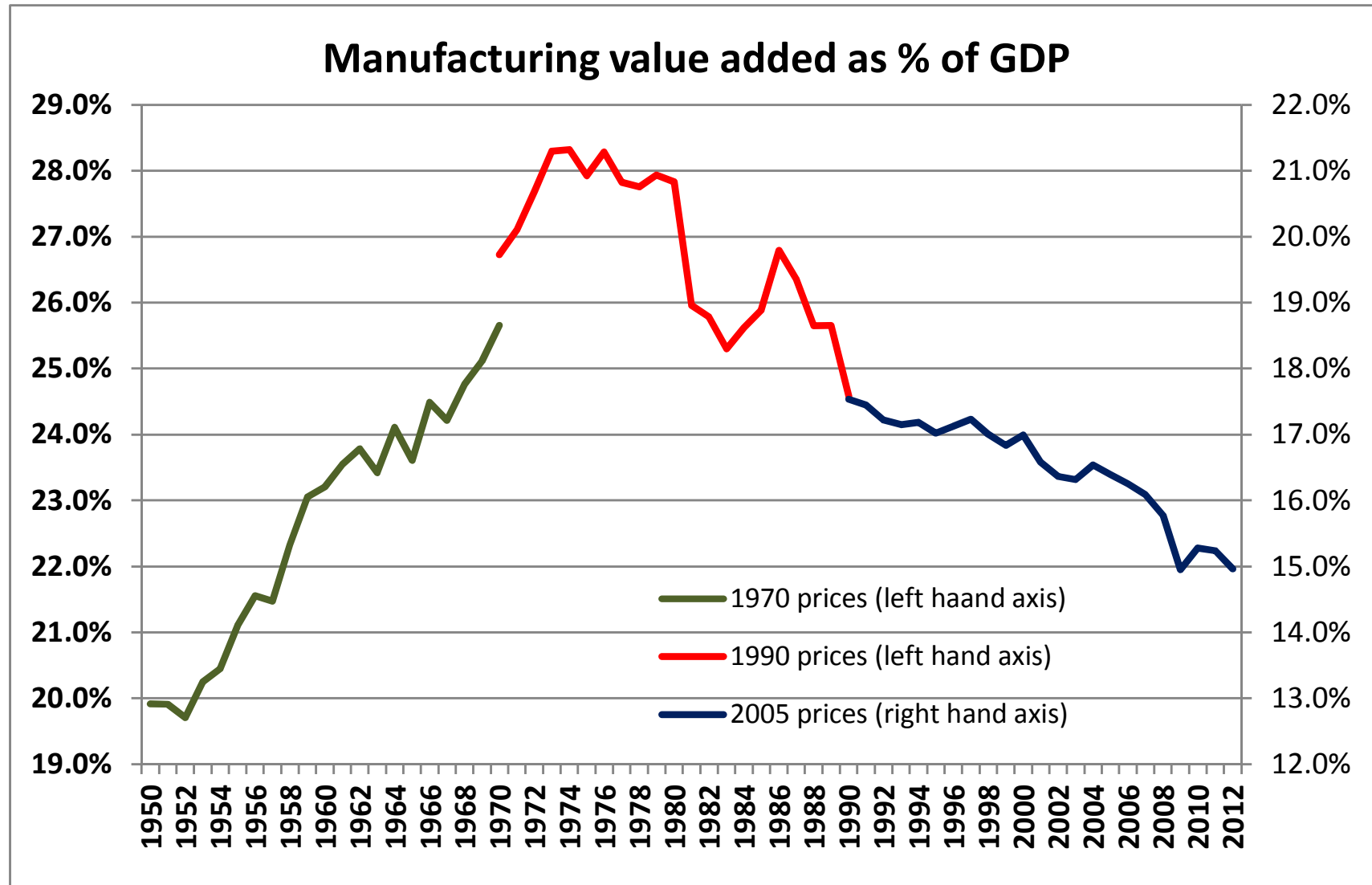
THE GREAT UNCERTAINTY: WORLD TRADE



THE COMMODITY BOOM HAS STARTED TO WEAKEN

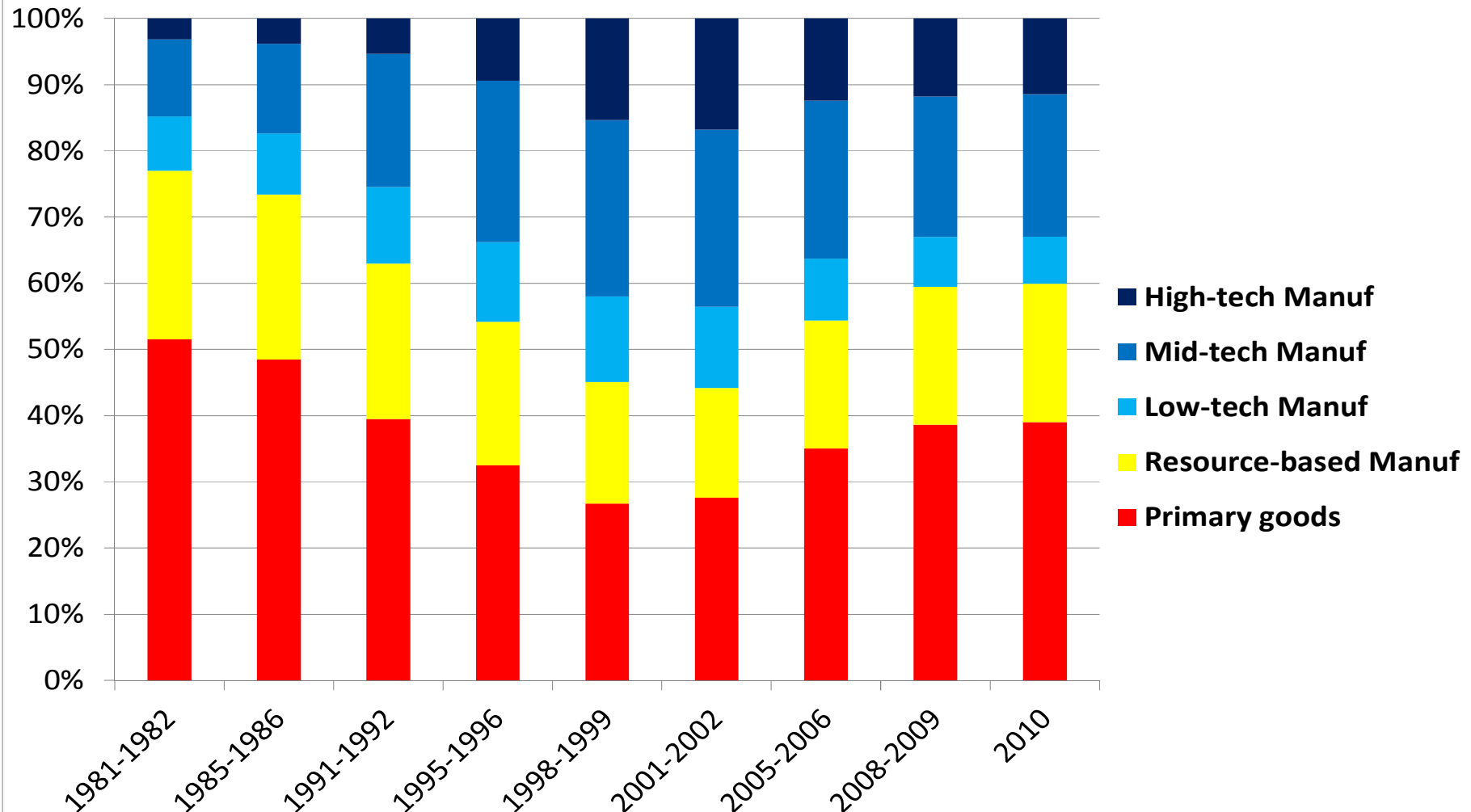


A NOW LONG AND PREMATURE DE-INDUSTRIALIZATION



LATIN AMERICA'S EXPORTS: BACK TO NATURAL RESOURCES.

Composition of Latin American Exports



SIGNIFICANT TECHNOLOGICAL GAP

Productive structure and technological change			
	Share of Engineering industries vs. USA 2002-2007	Spending in R&D as a share of GDP 1996-2007	Patents per million inhabitants 1995-2008
Latin America	0.23	0.40	0.5
Natural-resource-intensive developed economies	0.72	1.89	65.4
Developing Asia	0.99	1.21	30.5
Mature Economies	0.97	2.43	132.6

IS IT TIME TO LOOK TO A NEW STRATEGY?

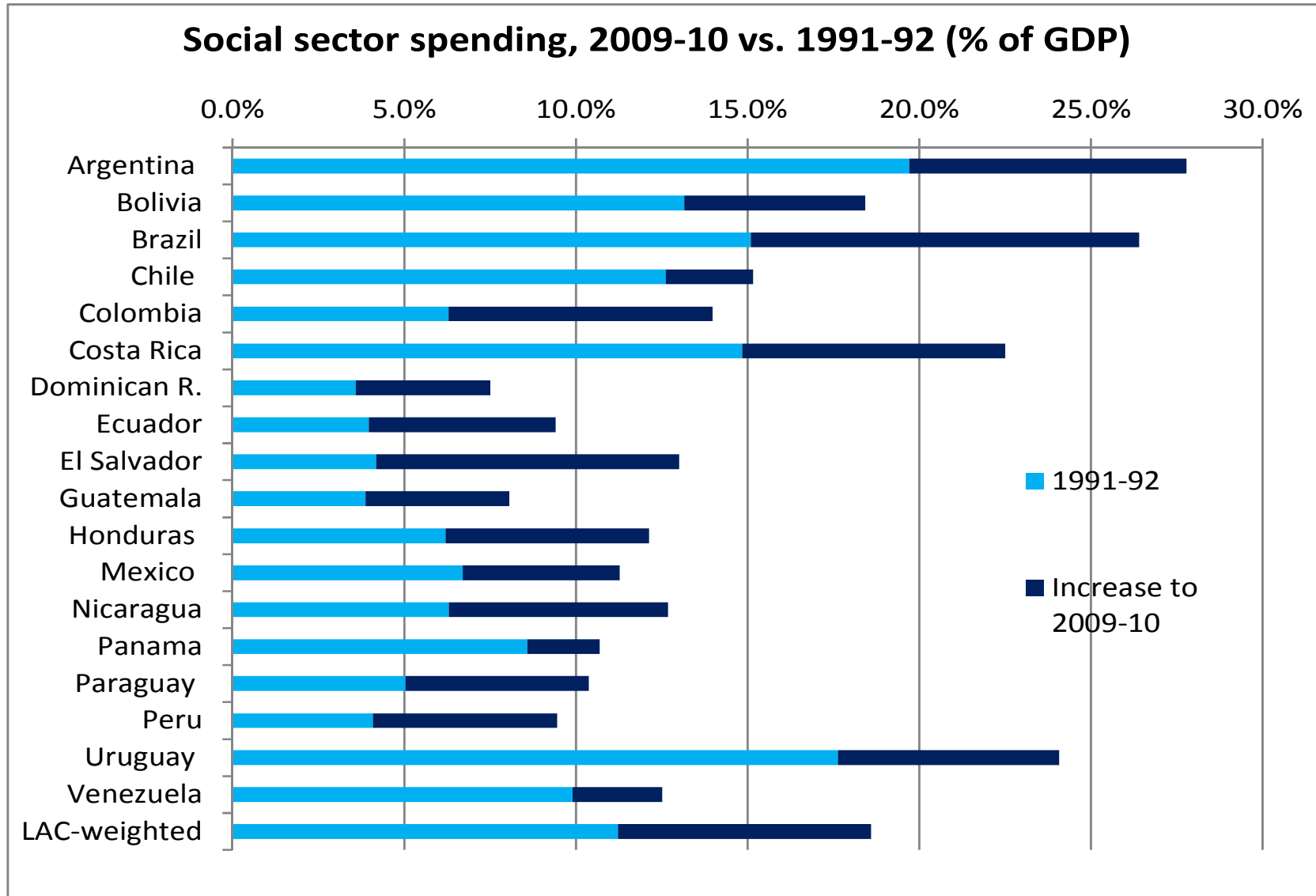
- ❖ Given the weakness of world trade, the space for orthodox export-led policies may be over.
- ❖ A pure inward-looking strategy would work for very few countries (Brazil, perhaps Argentina and Colombia). Improved social conditions support domestic market expansion.
- ❖ Integration (an “expanded domestic market”) would work, but politics does not help
- ❖ An essential element is, therefore, an aggressive export diversification strategy:
 - ✓ Ambitious industrial and technological policies
 - ✓ Reorientation toward Asia (China), but this also requires export diversification.

SOCIAL CONDITIONS

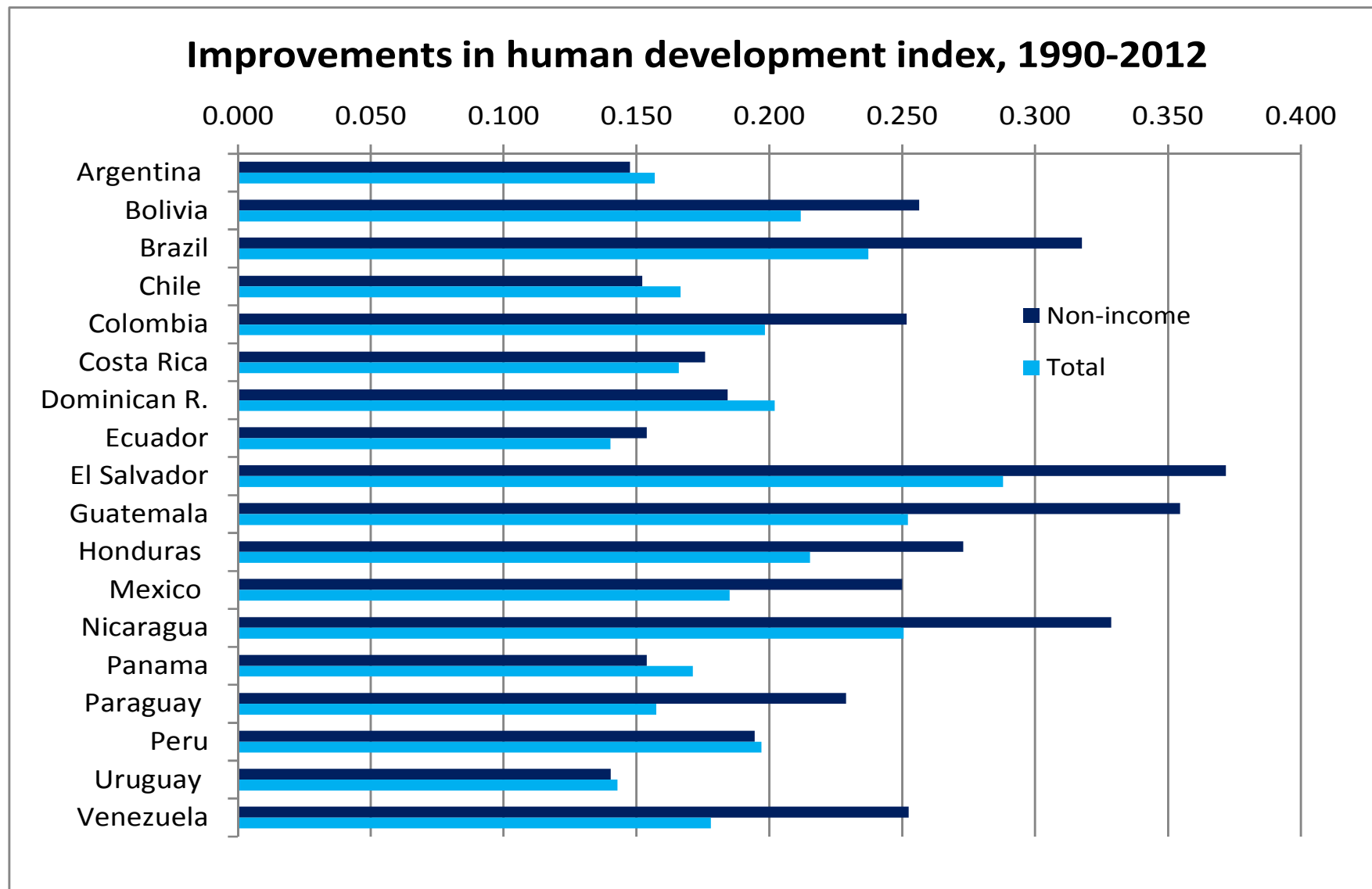
POSITIVE LONG-TERM TRENDS

- ❖ Generalized and strong long-term increase in social spending...
- ❖ ... which has been reflected in improvements in human development, particularly non-income human development (education and health).
- ❖ What is more interesting, inequality-adjusted non-income human development is now above international trends in most countries.
- ❖ Of course, major problems remain in relation to quality of education and health, as reflected, among others in the recent Pisa scores.

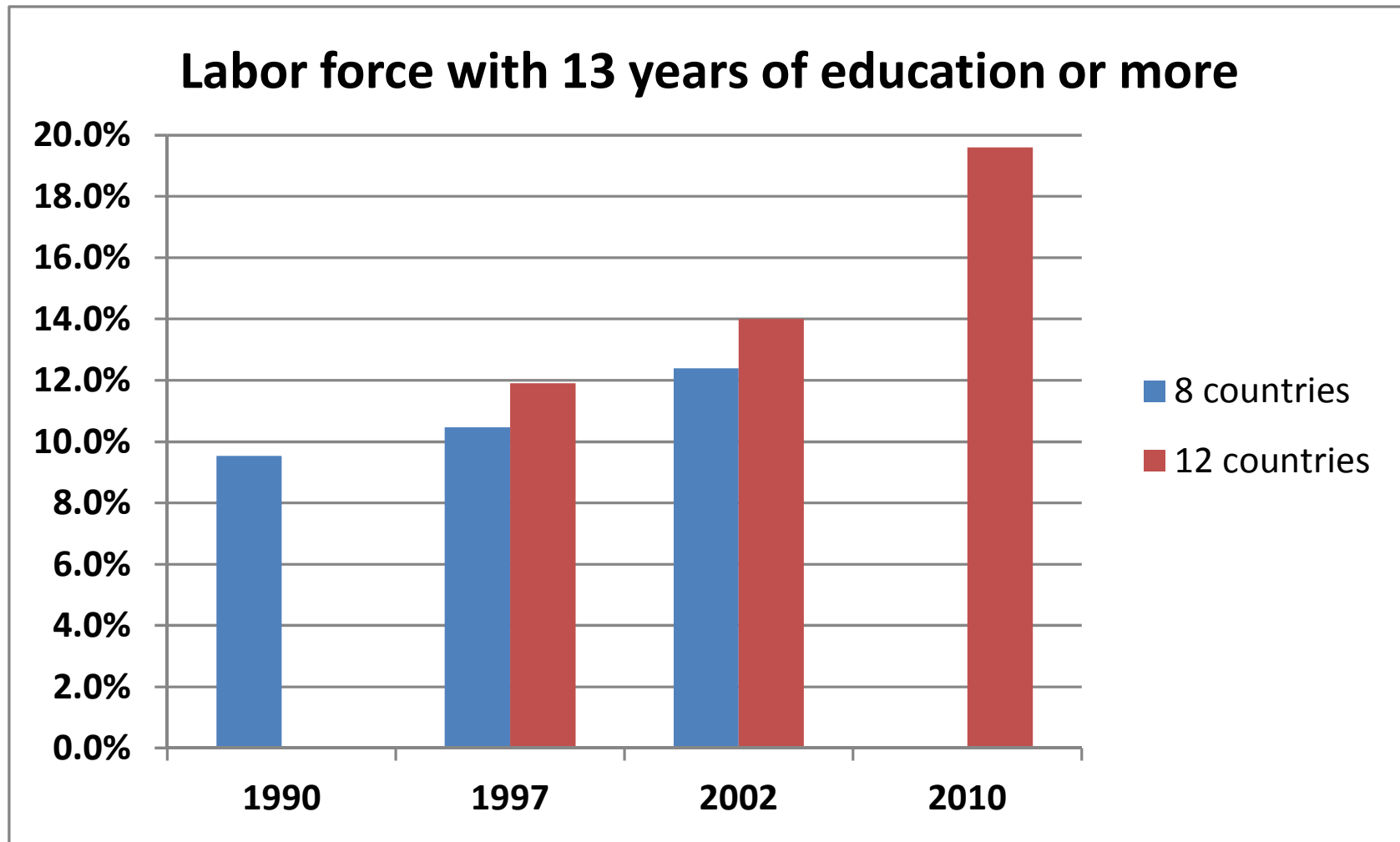
LONG-TERM INCREASES IN SOCIAL SPENDING...



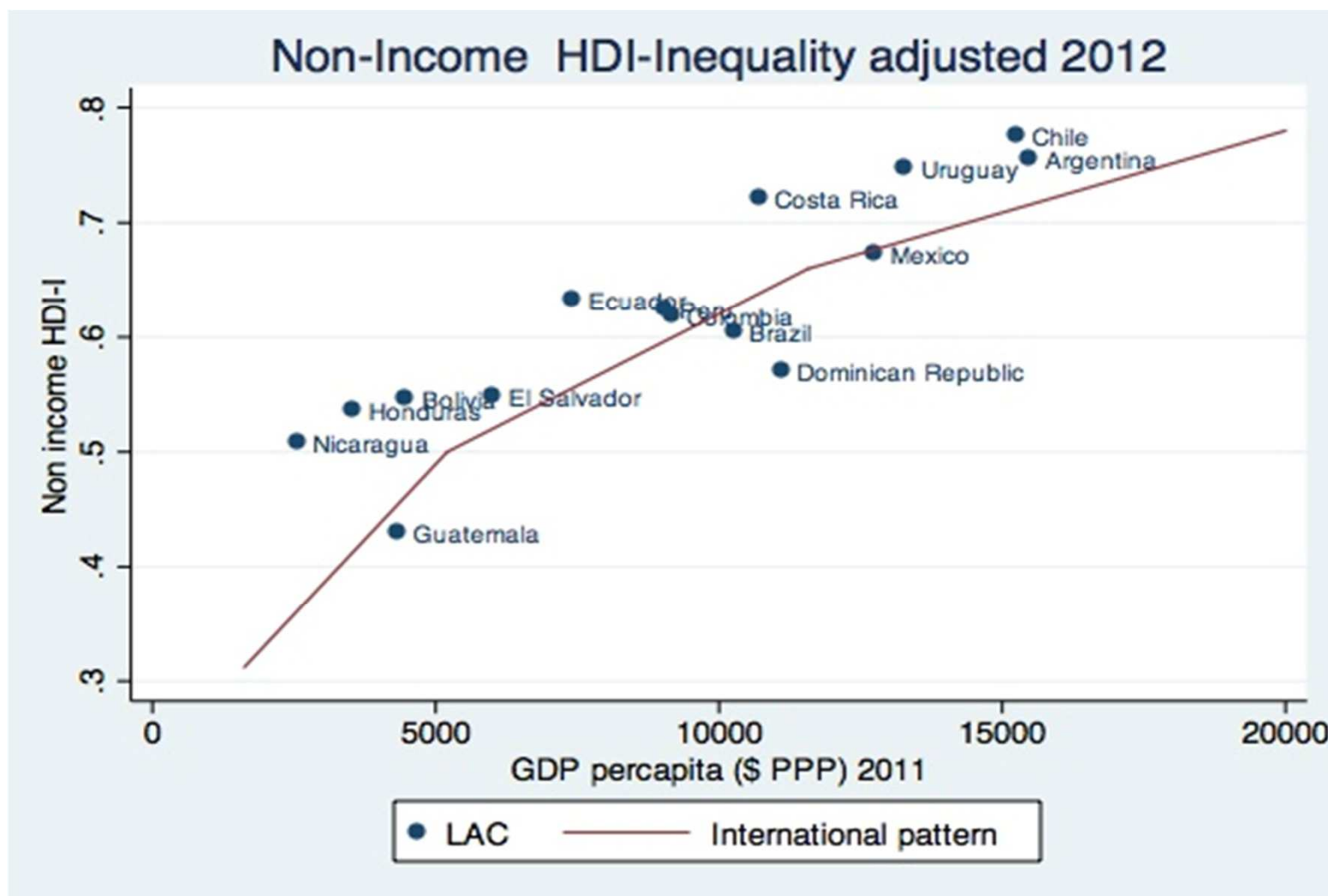
... WHICH HAVE BEEN REFLECTED IN HUMAN DEVELOPMENT



A REFLECTION: RAPID INCREASE IN EDUCATION OF LABOR FORCE



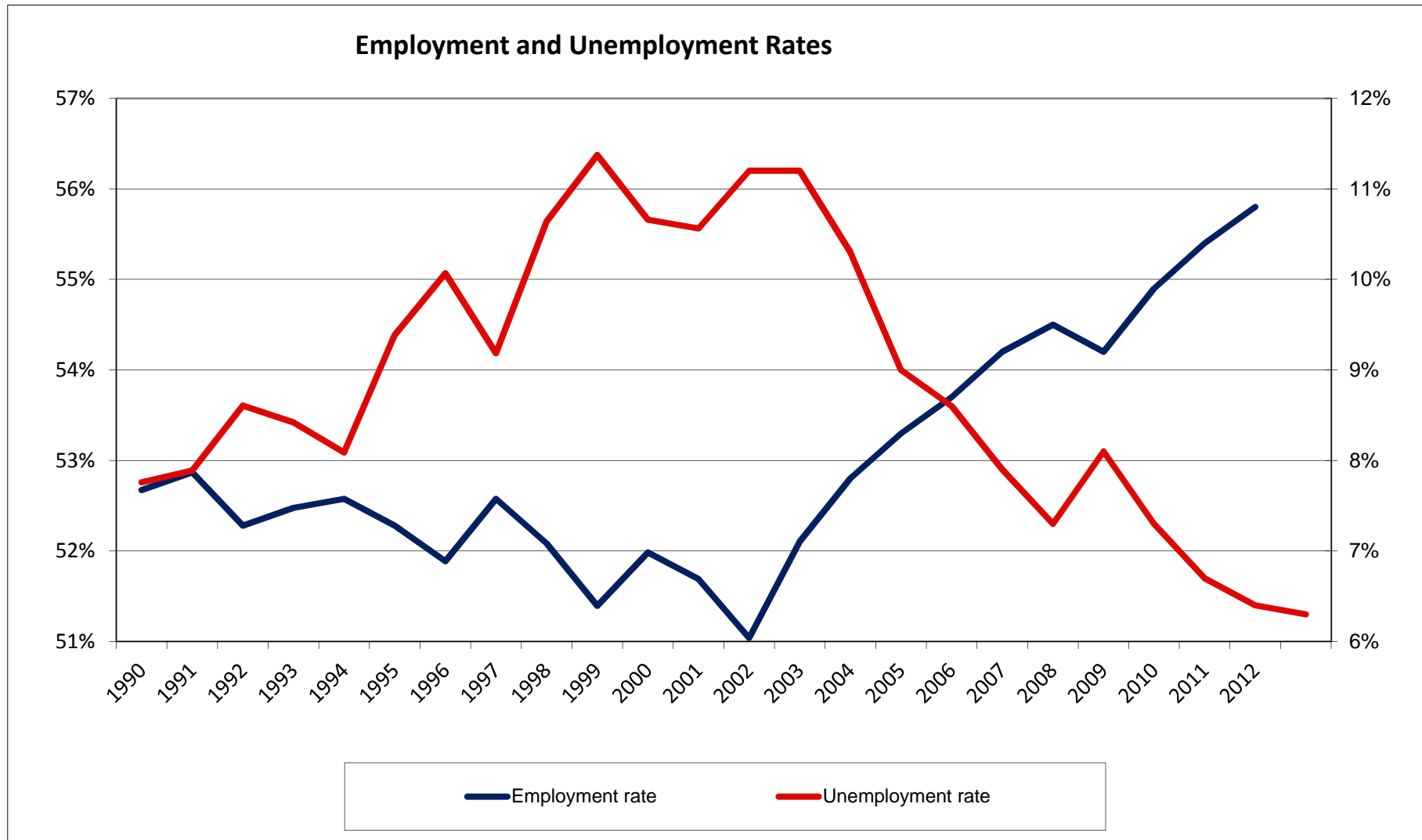
INEQUALITY-ADJUSTED NON-INCOME HUMAN DEVELOPMENT NOW EXCEEDS INTERNATIONAL PATTERNS



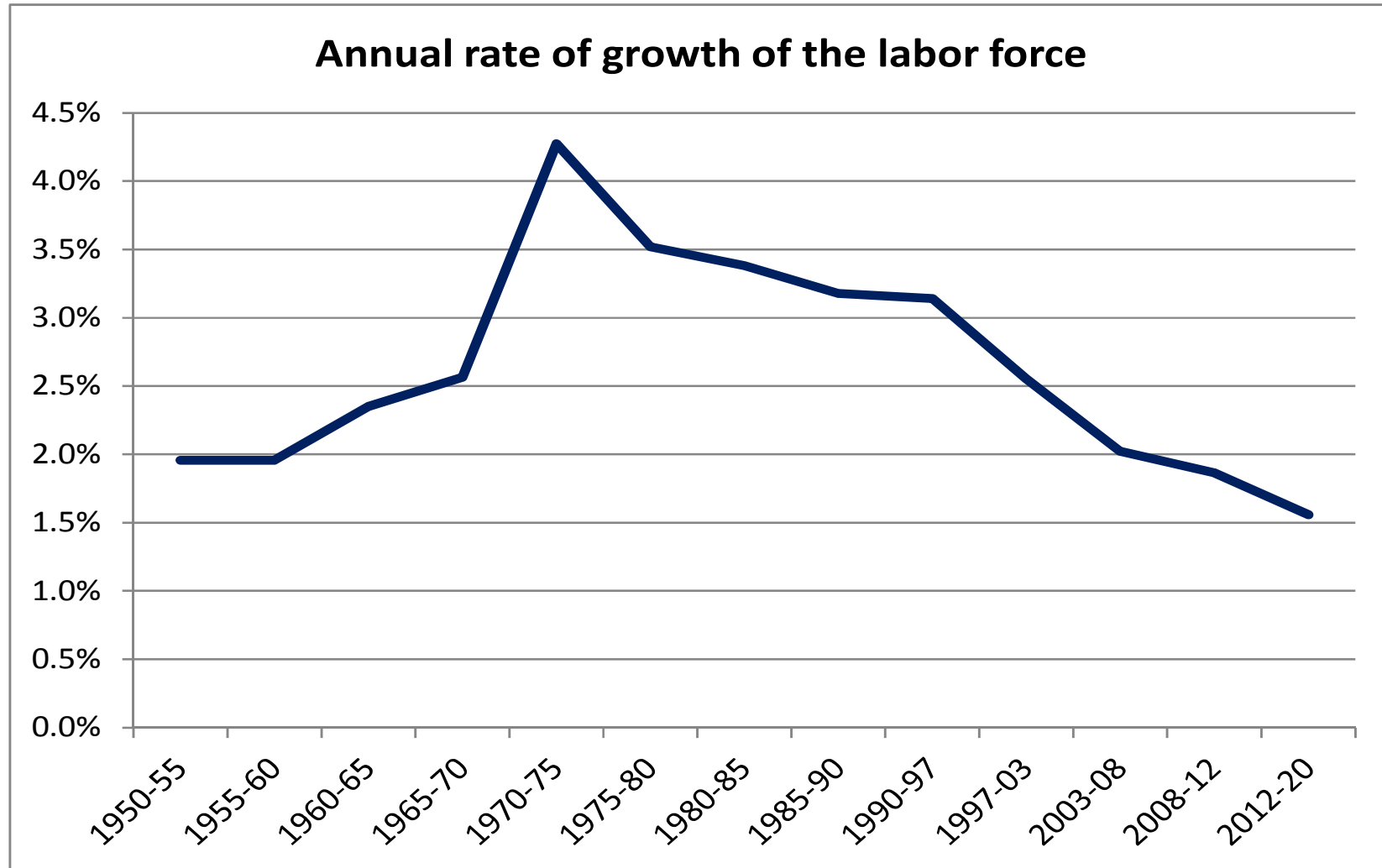
MORE RECENT POSITIVE TRENDS

- ❖ Two stages in the evolution of employment, poverty and income distribution:
 - ✓ Deterioration in 1990-2002/3
 - ✓ Improvements since 2002/3
- ❖ Strong slowdown in growth of the labor force over the past decade.
- ❖ A positive explanation of these positive trends:
 - ✓ During the boom, mix of demand for labor and with a more qualified and slower-growing labor force.
 - ✓ This has continued despite the recent slowdown, because labor force trends are stronger.
 - ✓ This is more important than possible effects of conditional cash transfers.

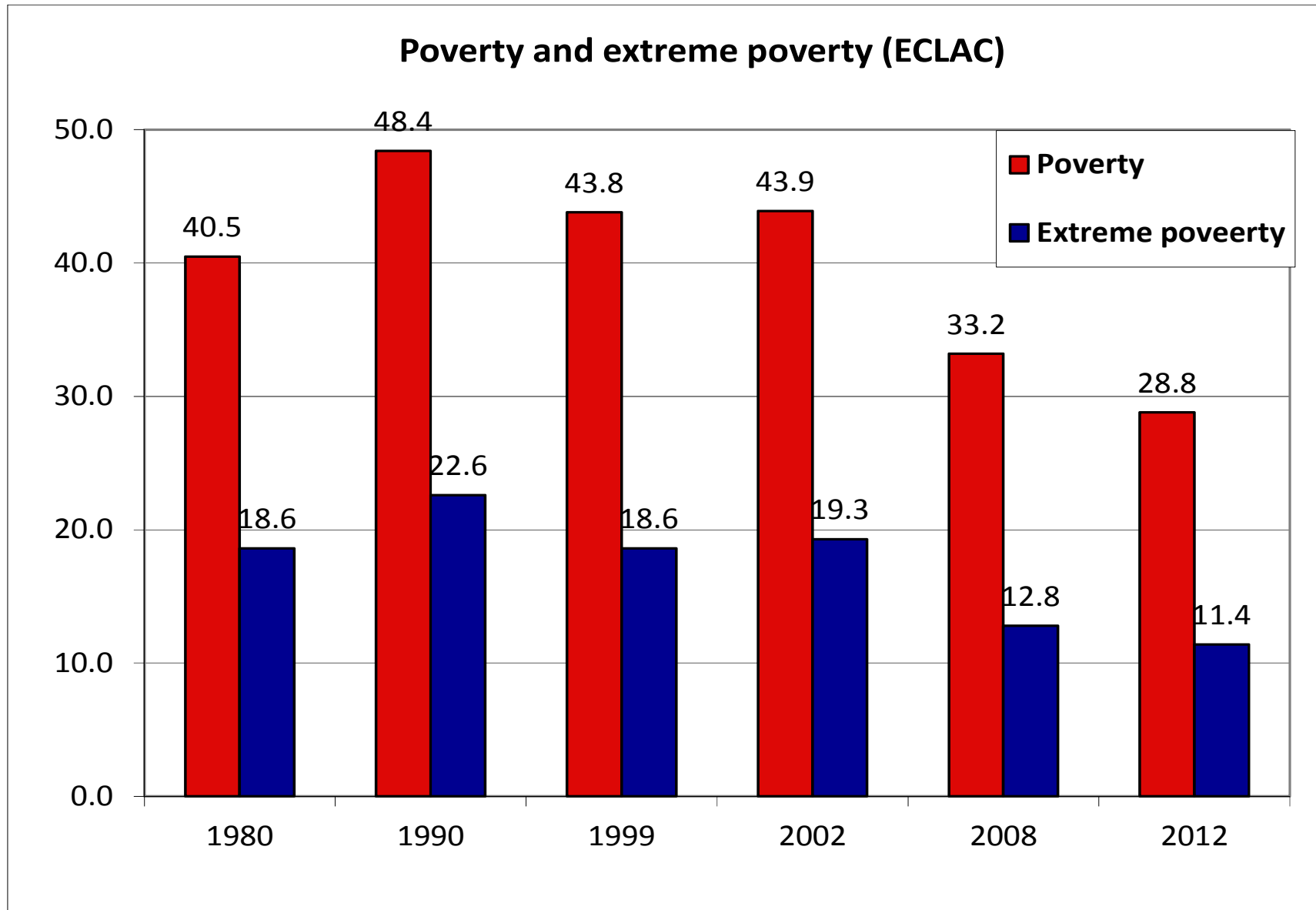
IMPROVEMENTS IN LABOR MARKET CONDITIONS



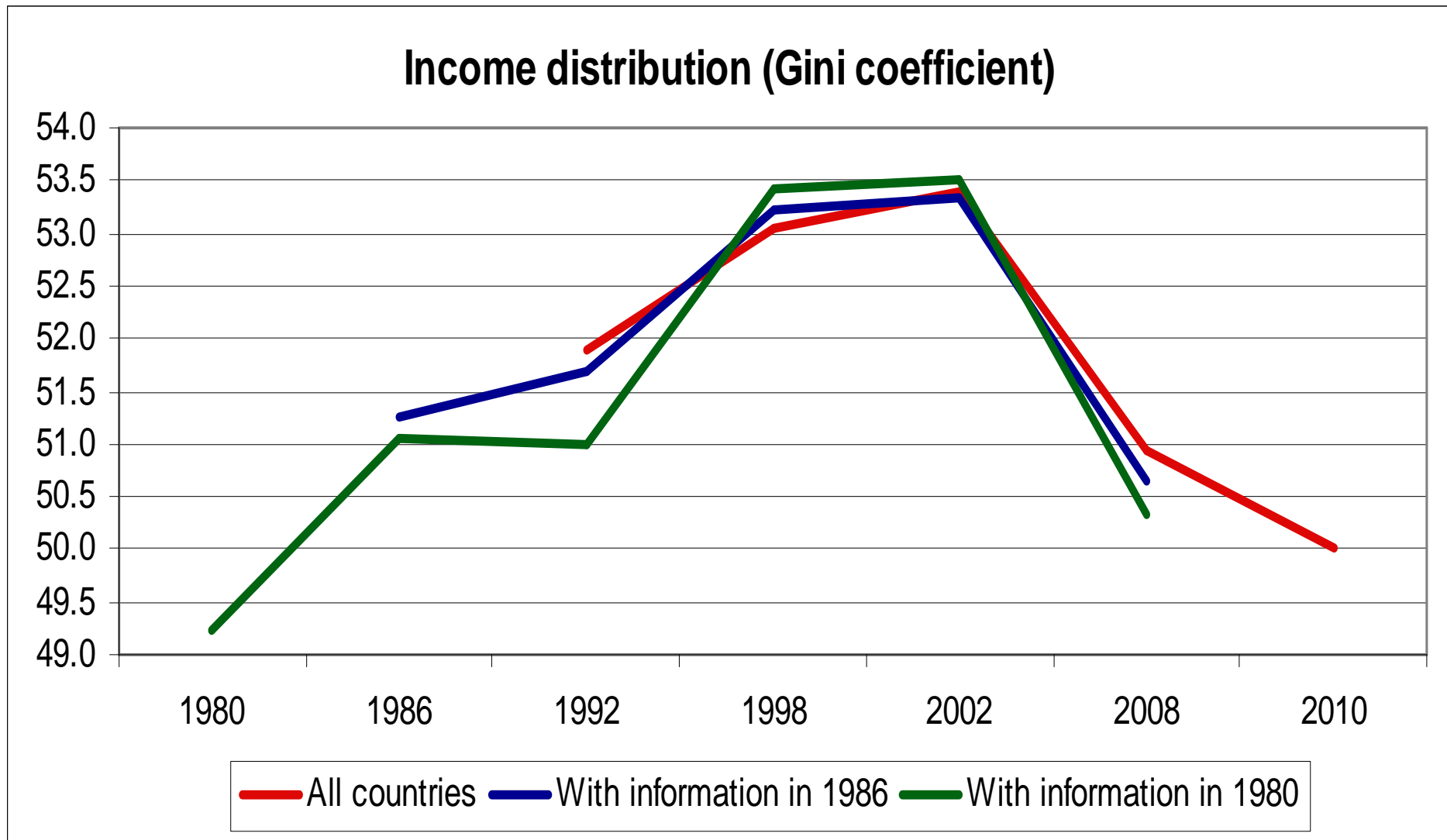
SLOWER LABOR FORCE GROWTH



STRONG POVERTY REDUCTION



IMPROVEMENTS IN INCOME DISTRIBUTION



CONCLUSIONS

MAIN MESSAGES

- ❖ The North-American financial crisis interrupted the most spectacular growth period since the 1970s.
- ❖ Some favorable external conditions are gone, but some remained favorable, particularly for South America.
- ❖ Slow post-crisis growth is associated with structural factors, particularly de-industrialization and technological lags, but also to currency appreciation.
- ❖ Social conditions have had a more favorable evolution, largely for long-term reasons.
- ❖ This provides an opportunity, but it requires revising the development model in place.

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