

A satellite-style image of the Earth, showing the Americas. The sun is shining from the top right, creating a bright glow over the Atlantic Ocean and parts of North America. The landmasses are in shades of green and brown, while the oceans are dark blue.

# The Awakening of Latin America

Vittorio Corbo

Centro de Estudios Públicos

Santiago, Chile

April 23, 2012

Invited Lecture at the IE Business School, Madrid, Spain



# 1. Latin America in the Last Thirty Years

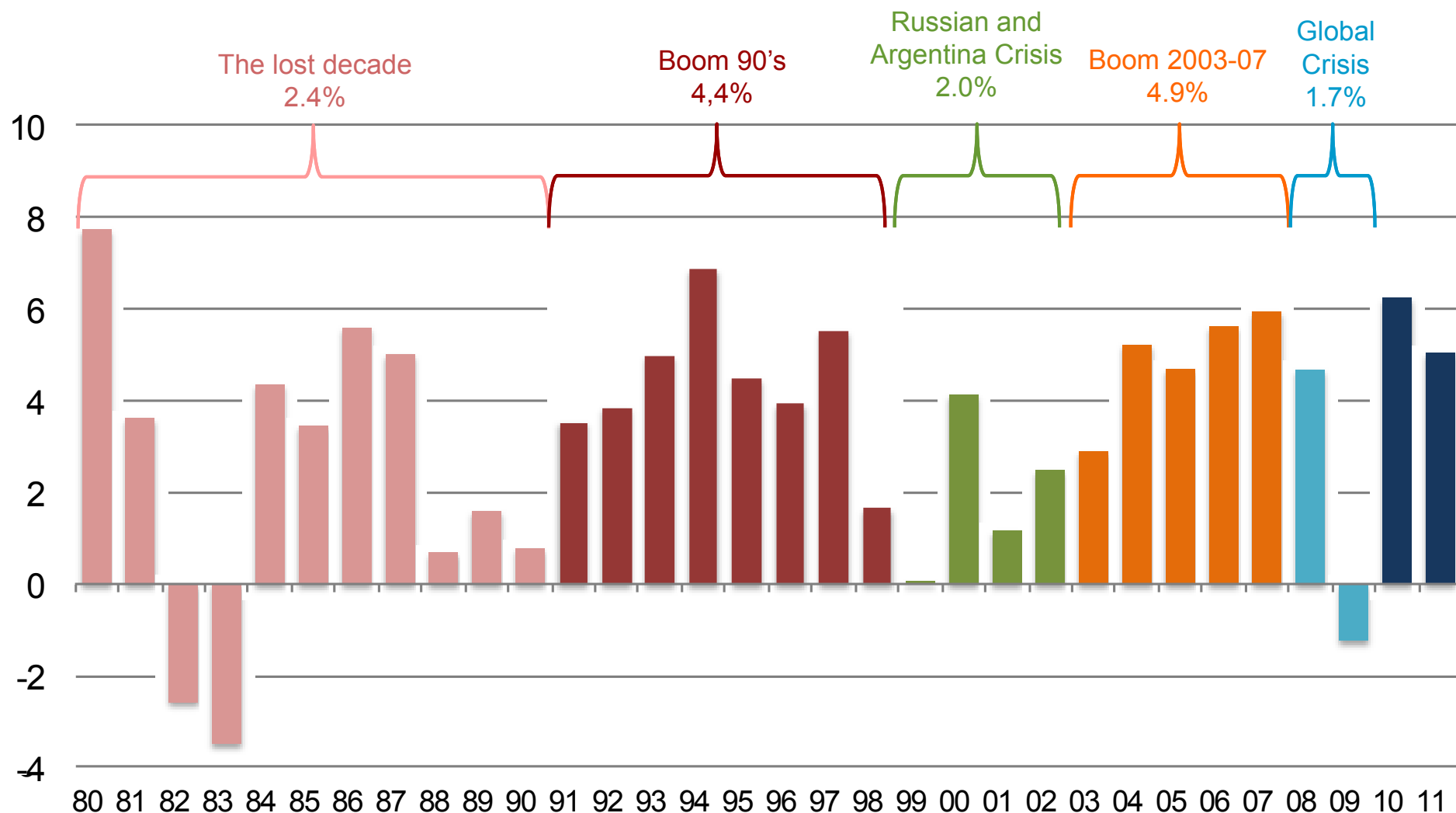
# Latin America in the Last Thirty Years

## Development models and policies

- After growing at an average annual rate of 1.9% in the 80s and 2.9% in the 90s, Latin America's economic growth reached an annual average of 3.4% in the 2000-2010 period.
- Performance improved with reforms in development strategies and policy regimes that started in the 1990s and deepened in the last decade.
- There are two broad models of development implemented in the region:
  - Group 1: The Pacific ream one: Chile, Colombia, Mexico and Peru augmented by Brazil. (Market friendly policies, opening to trade and to FDI, sustainable macroeconomic and financial regimes).
  - Group 2: Argentina, Ecuador and Venezuela. (More populist policies).

# Latin America in the Last Thirty Years

## Latin America Growth (LAC-5)\* (%)



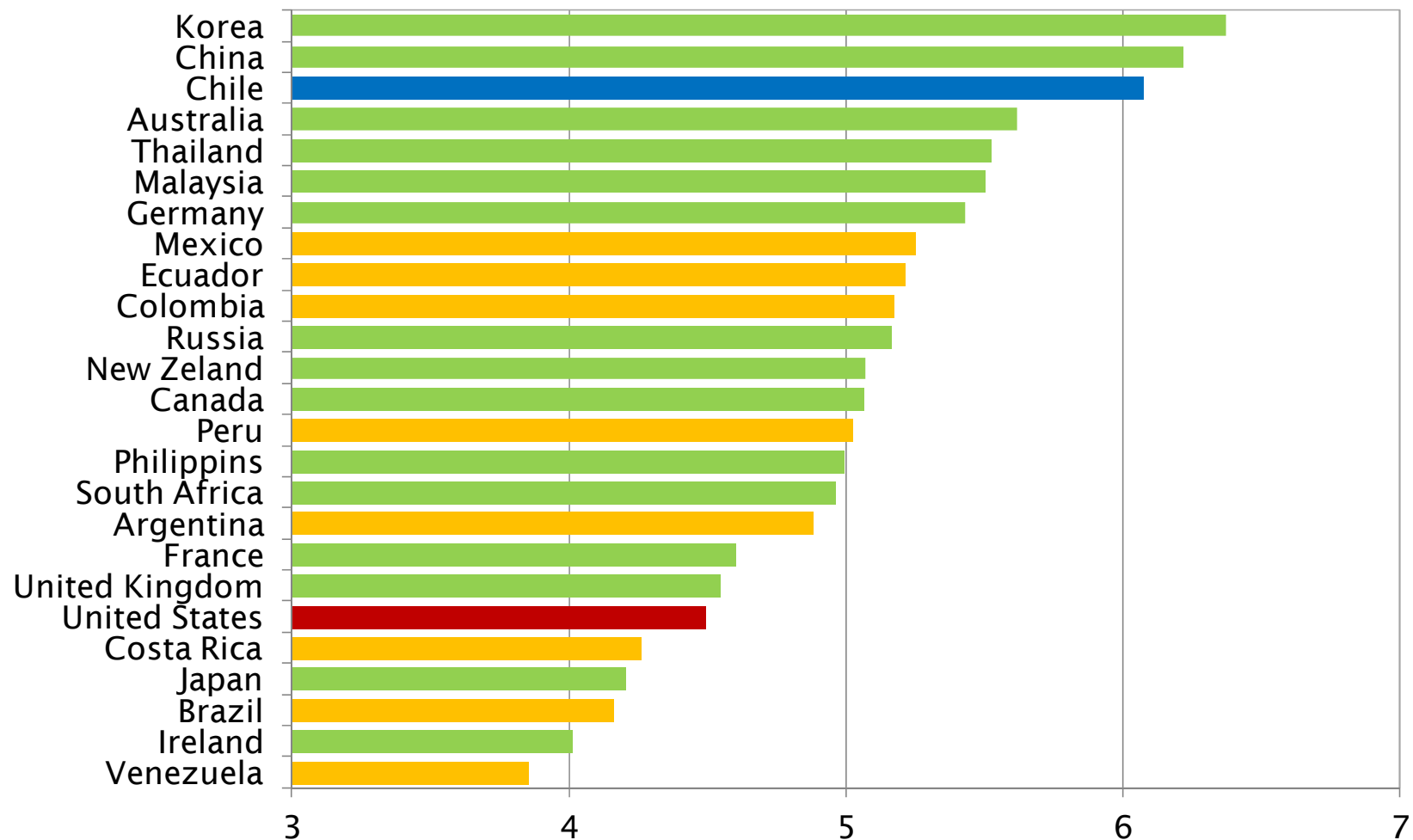
# Latin America in the Last Thirty Years

## Macroeconomic Policies

- On the macroeconomic and financial side, improvements have taken several forms:
  - Strengthening fiscal regimes in some cases supported by the introduction of fiscal rules;
  - Strengthening monetary policy regime by adopting versions of flexible Inflation-targeting regimes with more flexible exchange rate systems;
  - Upgrading the regulation and supervision of the banking and the financial system.

# Latin America in the Last Thirty Years

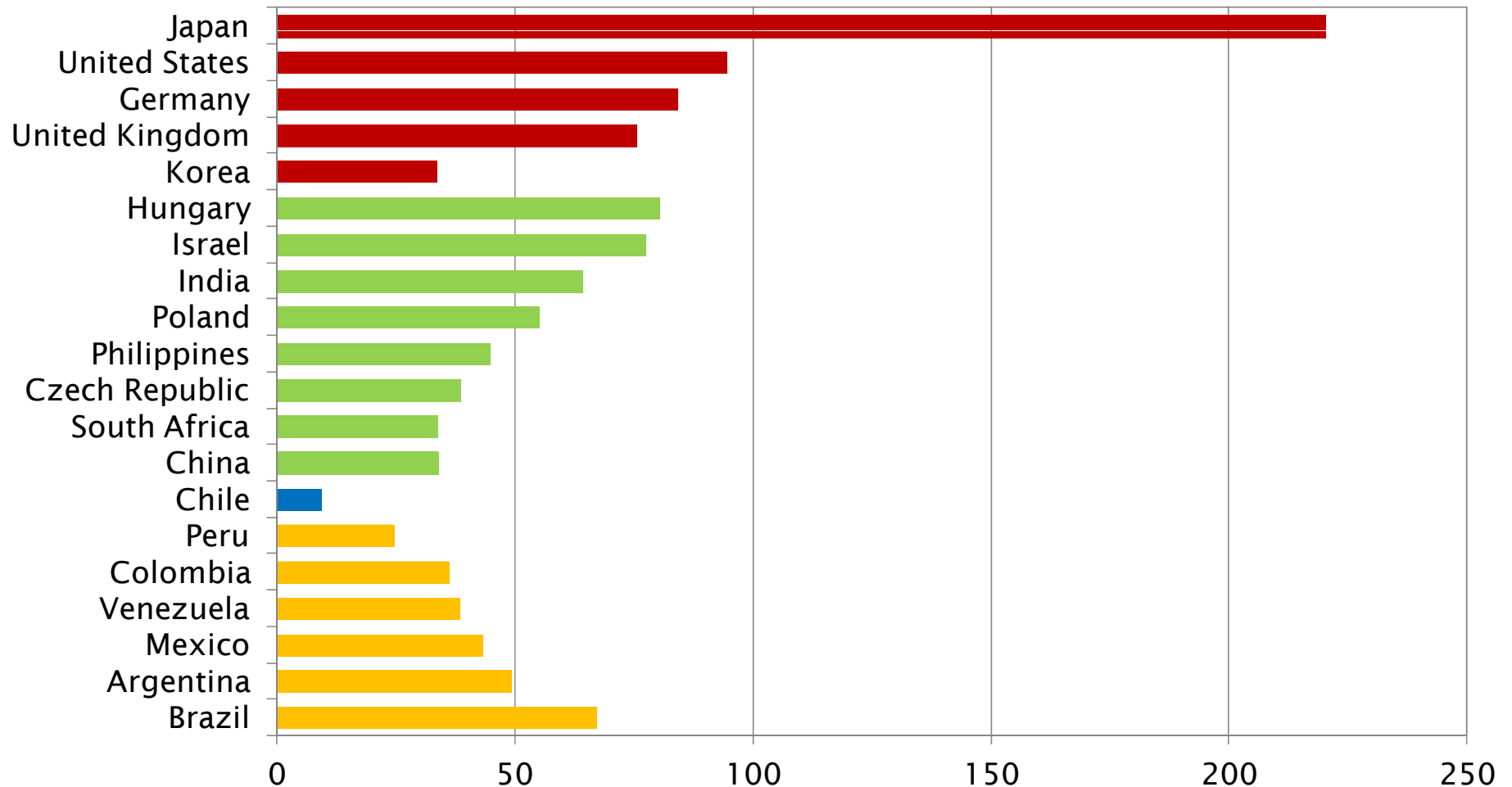
## Macroeconomic Environment Index, 2011-2012



Source: The Global Competitiveness Report 2011-2012, World Economic Forum.

# Latin America in the Last Thirty Years

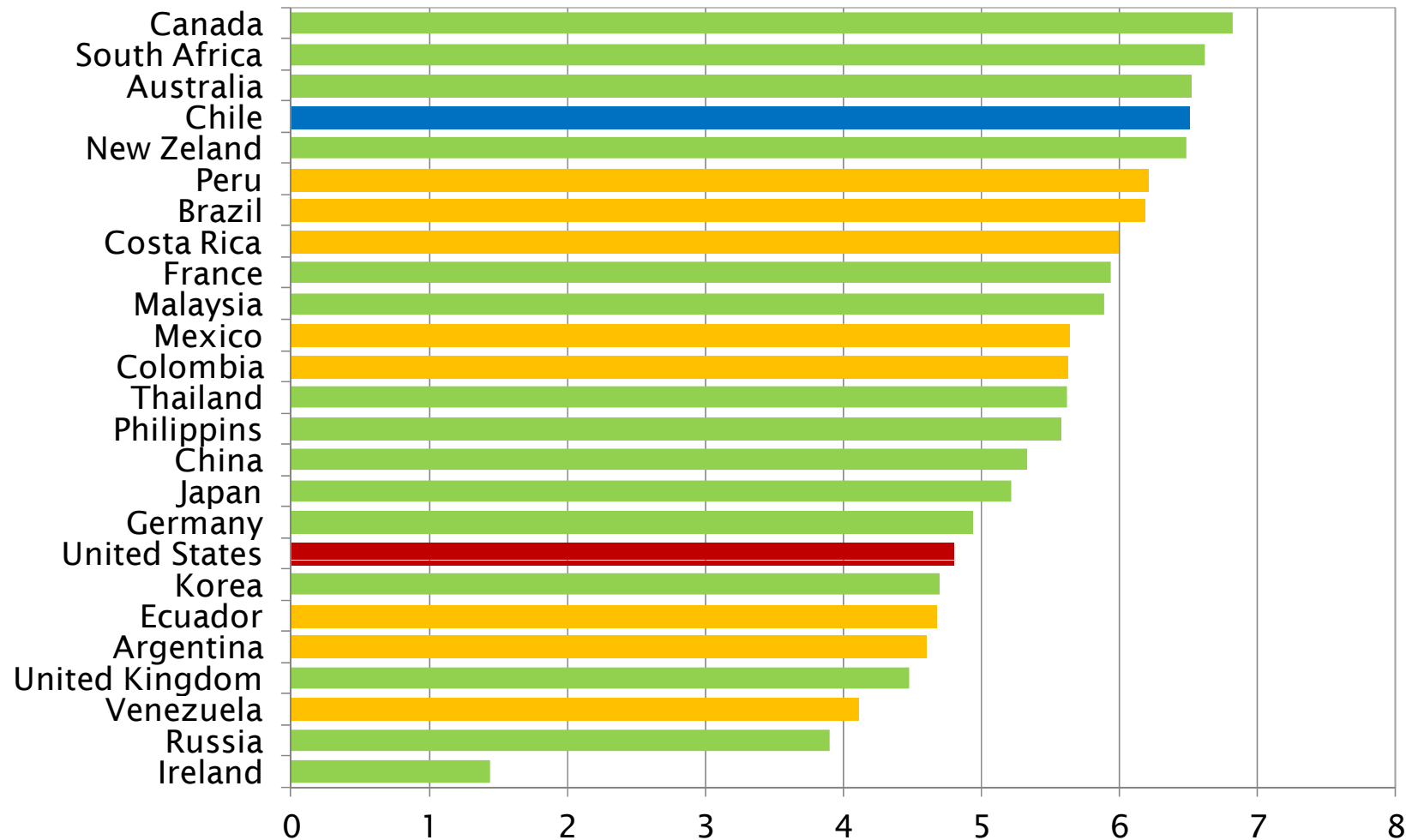
## General Government Gross Debt in 2010 (% of GDP)



Source: FMI, WEO, September 2011.

# Latin America in the Last Thirty Years

## Soundness of Banks Index 2011-2012



Source: The Global Competitiveness Report 2011-2012, World Economic Forum.



# Latin America in the Last Thirty Years

## Inflation (% , annual rate)

	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004	2005-2010
Argentina	268.1	863.2	506.6	0.8	8.3	9.1
Brazil	123.9	532.3	1690.2	19.4	8.7	5.1
Chile	22.4	20.4	17.5	6.0	2.8	3.8
Colombia	22.7	24.0	26.4	17.9	7.3	4.7
Mexico	56.2	81.9	16.3	24.5	6.0	4.4
Peru	84.1	878.5	1607.4	8.4	2.4	2.6
Latin America and the Caribbean	79.9	191.1	237.4	18.6	8.1	6.1
Developing Asia	8.4	10.9	9.8	7.5	2.7	4.9
Central and Eastern Europe	26.8	33.9	92.7	46.4	18.1	6.0

# Latin America in the Last Thirty Years

## Fiscal Balances in Latin America: 1999-2011 (% of GDP)

	1999-2001	2002-2004	2005-2007	2008	2009	2010	2011
Argentina	-4.6	-7.6	-1.7	-0.8	-3.6	-1.7	-2.0
Brazil	-3.8	-4.2	-3.3	-1.4	-3.1	-2.9	-2.5
Chile	-1.1	0.1	7.0	4.3	-4.4	-0.3	1.4
Colombia	-3.7	-2.2	-0.7	0.0	-2.5	-3.1	-3.0
Mexico	-4.0	-2.4	-1.2	-1.1	-4.7	-4.3	-3.2
Peru	-2.7	-1.6	1.5	2.2	-1.9	-0.4	0.6
Venezuela	0.3	0.4	-0.1	-2.7	-8.2	-6.0	-

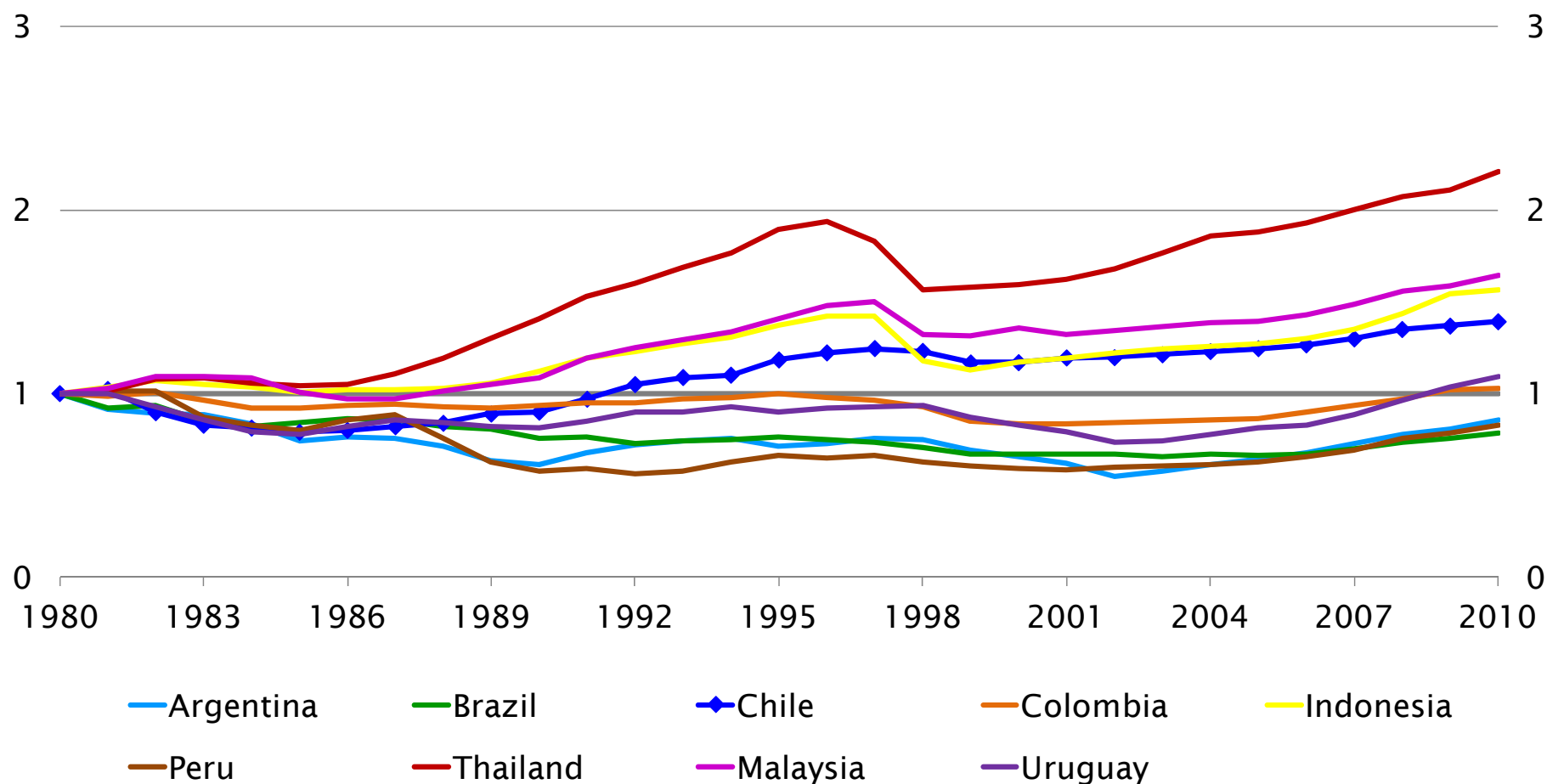
# Latin America in the Last Thirty Years

## Progress on convergence and improvements on social indicators

- In the last decade the region improved its relative GDP per capita position in with respect to industrial countries.
- However, in the last thirty years only Chile has been able to improve its relative GDP per capita position with respect to the industrial countries.
- But region wide, the combination of higher growth and targeted social policies made possible a marked improvement in social indicators.
  - This has been specially so in Chile, Brazil and Peru.
- However, LAC income distribution is still very unequal.

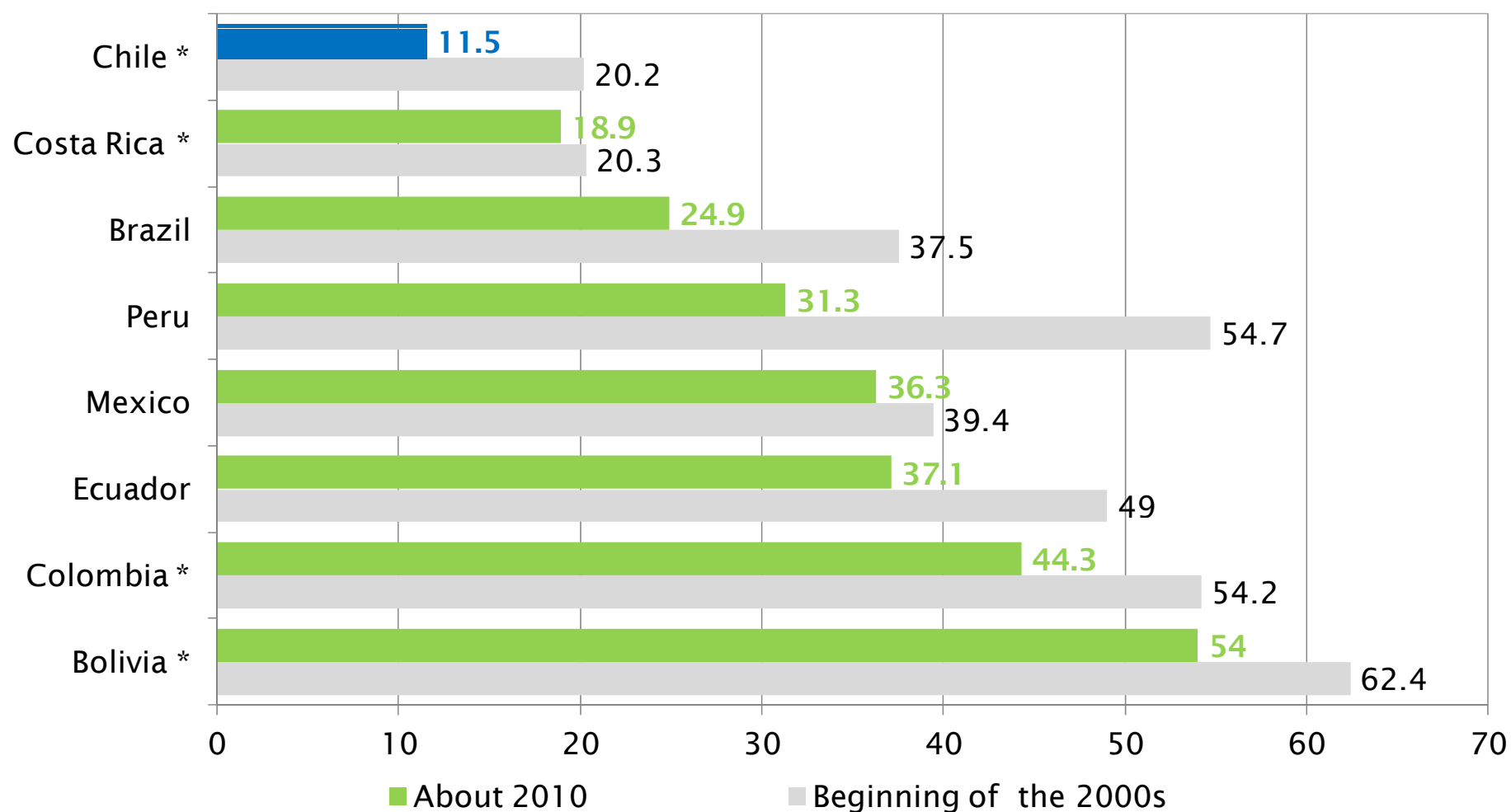
# Latin America in the Last Thirty Years

Per Capita GDP over Per Capita GDP of United States, PPP (1980=1)



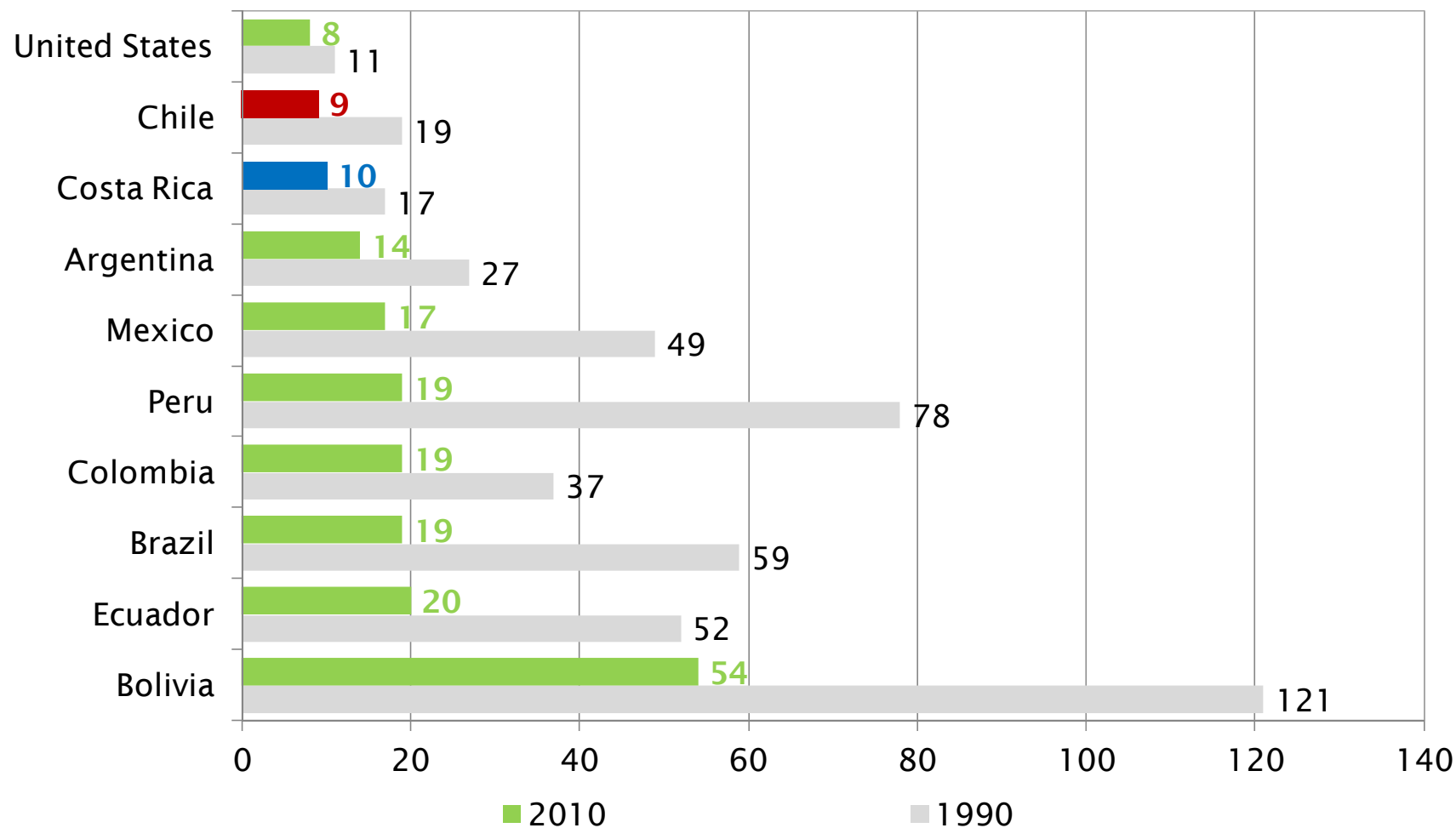
# Latin America in the Last Thirty Years

## Poverty in Latin America (% of people below the poverty line)



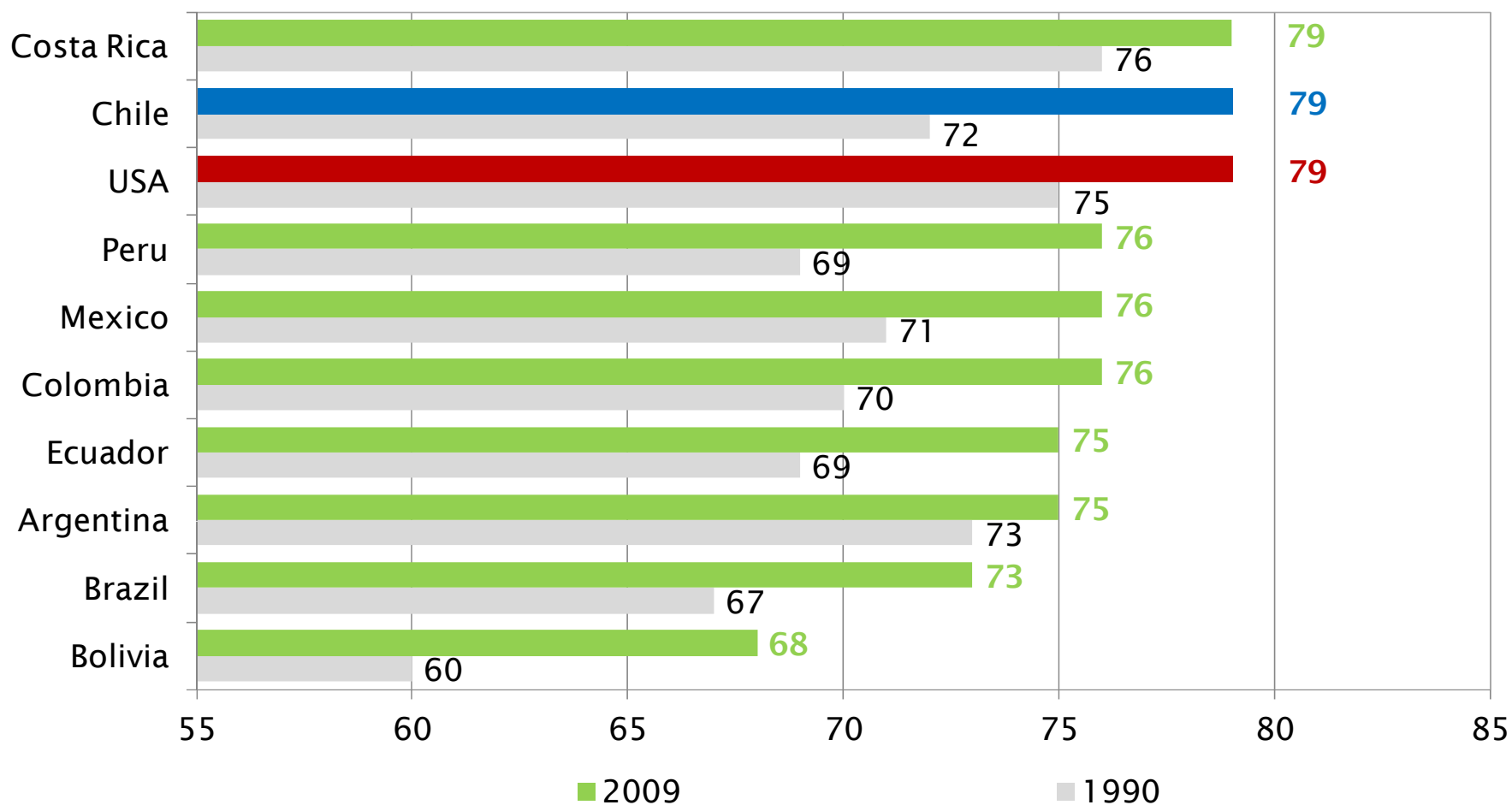
# Latin America in the Last Thirty Years

Infant Mortality (Under-5 Mortality Rate, per 1,000)



# Latin America in the Last Thirty Years

## Life Expectancy at Birth (Number of years)



# Latin America in the Last Thirty Years

## Distribution of National Income by quintiles (%) and Gini Coefficient

		Argentina			Brazil			Chile		
		1999 a/	2002 b/	2009 c/	2001	2003	2009	2000	2003	2009
Quintile 1 (poorest)	Decile 1	1.3	0.9	1.1	0.6	0.7	0.8	1.2	1.3	1.5
	Decile 2	2.3	1.9	2.4	1.4	1.5	1.9	2.2	2.4	2.7
Quintile 2		7.2	6.4	8.0	5.1	5.4	6.5	6.9	7.2	7.9
Quintile 3		11.5	10.8	12.7	9.0	9.5	11.0	10.7	11.0	11.7
Quintile 4		19.1	18.3	20.4	16.1	16.7	18.0	17.6	17.8	18.4
Quintile 5 (richest)	Decile 9	15.6	15.4	16.3	15.1	15.3	15.2	15.2	15.0	15.0
	Decile 10	43.1	46.4	39.2	52.8	50.9	46.5	46.3	45.4	42.9
Total		100	100	100	100	100	100	100	100	100
Gini Coefficient		0.542	0.590	0.510	0.639	0.621	0.576	0.564	0.552	0.524
		Colombia			Mexico			Uruguay d/		
		1999	2002	2009	2002	2004	2008	1999	2002	2009
Quintile 1 (poorest)	Decile 1	0.7	0.7	0.7	1.5	1.4	1.5	1.8	1.8	2.0
	Decil 2	1.8	1.7	1.8	2.5	2.6	2.6	3.1	3.0	3.3
Quintile 2		6.0	6.1	6.4	7.7	7.9	7.9	9.6	9.0	9.6
Quintile 3		9.7	10.3	10.8	12.2	12.1	12.3	14.3	13.8	14.3
Quintile 4		16.0	17.8	18.5	19.5	19.1	19.3	21.5	21.3	21.5
Quintile 5 (richest)	Decile 9	13.8	15.8	15.7	15.9	15.7	15.3	16.2	16.4	16.2
	Decile 10	52.0	47.7	46.0	40.7	41.1	41.2	33.5	34.6	33.1
Total		100	100	100	100	100	100	100	100	100
Gini Coefficient		0.572	0.594	0.578	0.514	0.516	0.515	0.440	0.455	0.433

a/ Twenty-eight urban agglomerations. b / Thirty-two urban agglomerations. c / Thirty-one agglomerations. d / Urban Population.  
Source: ECLAC Statistical Yearbook.



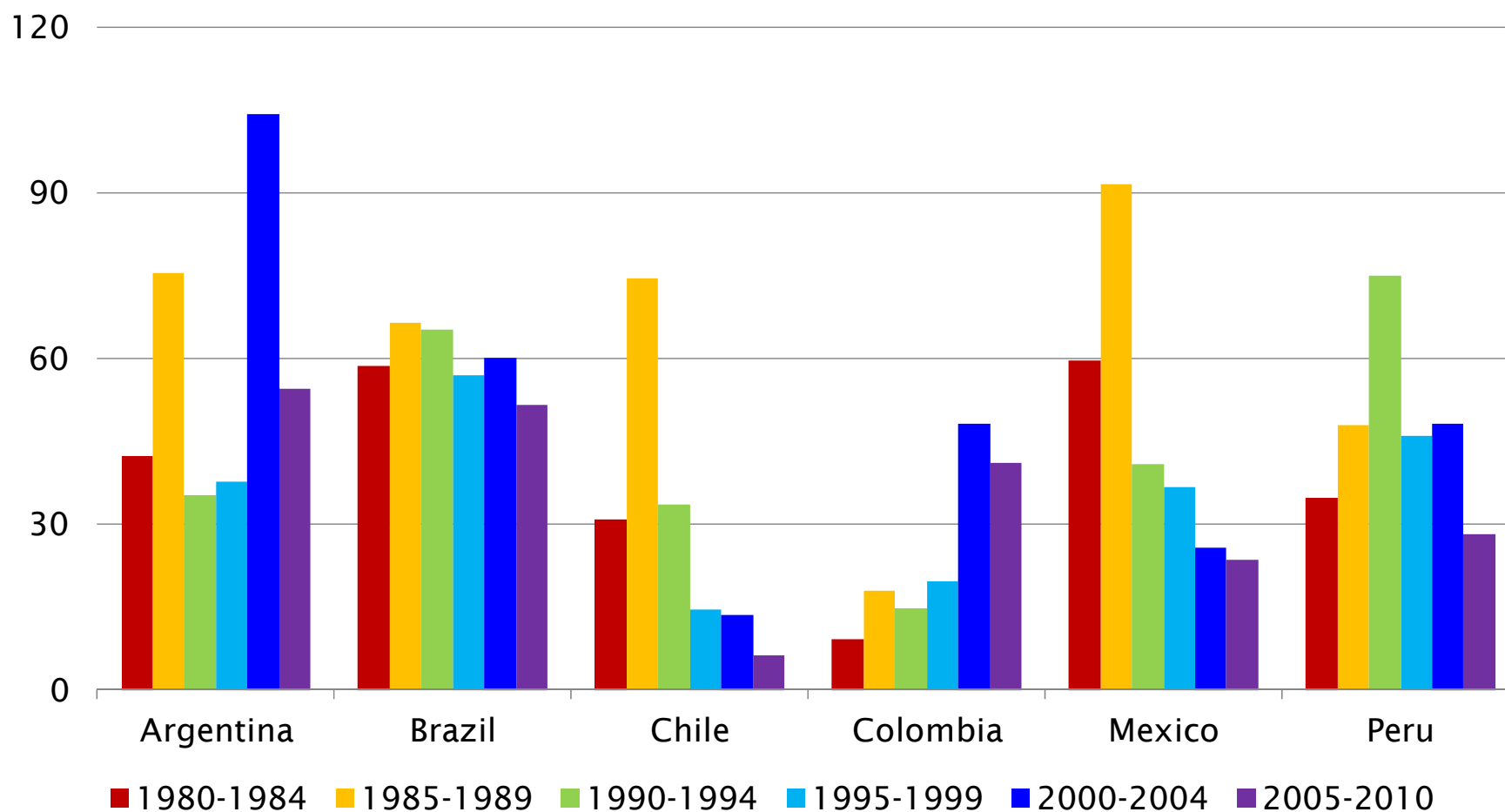
# Latin America in the Last Thirty Years

Strong macro-financial fundamentals have improved resilience

- In the process, the region has become more resilient to external shocks thanks to:
  - The reduction in Public Debt/GDP ratios and the marked increase in international reserves;
  - The newly gained capacity to carry out countercyclical fiscal and monetary policies;
  - The regional diversification of exports;
  - The access to precautionary financing from the IMF.

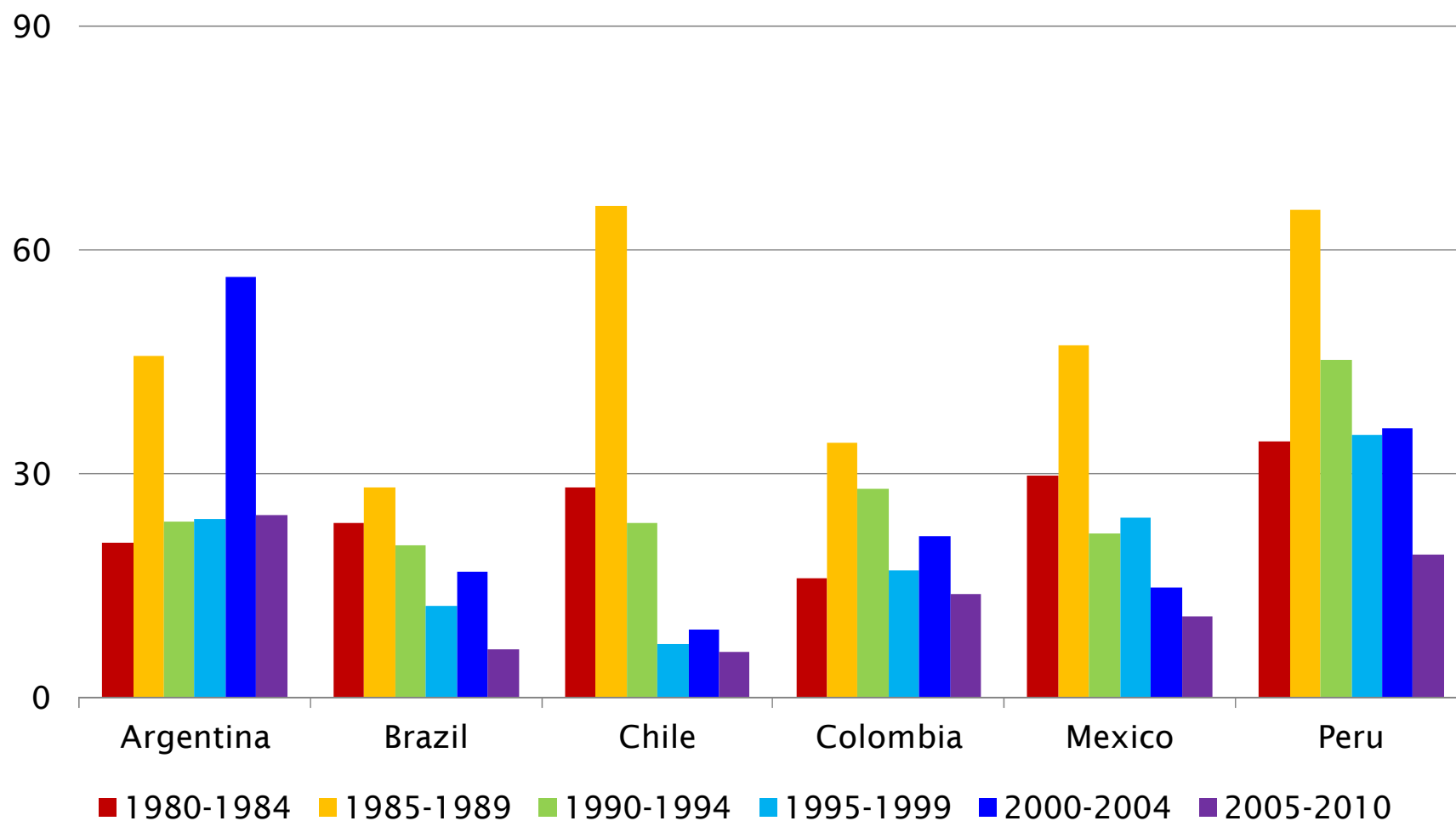
# Latin America in the Last Thirty Years

## Total Gross Central Government Debt (% of GDP)



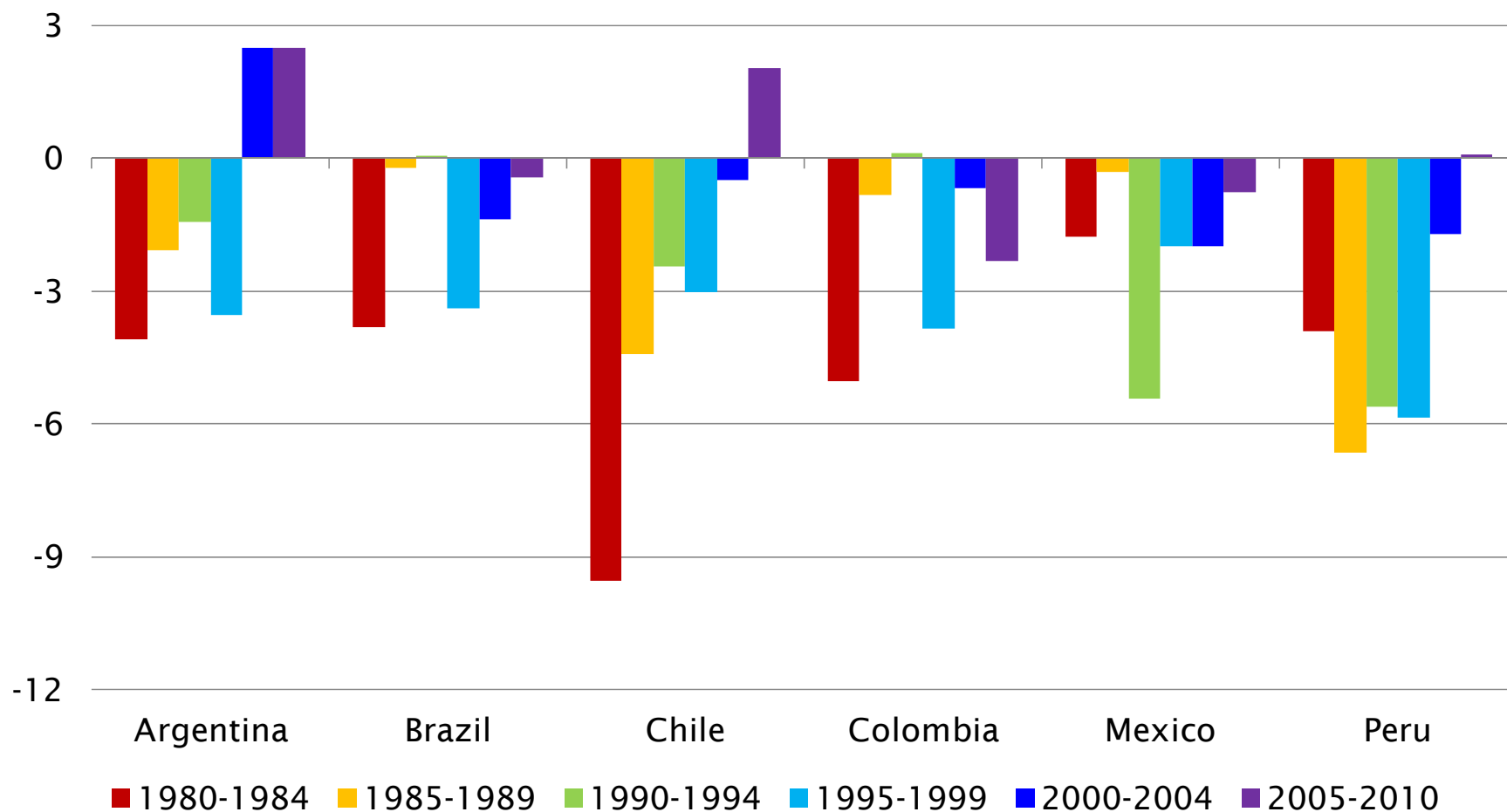
# Latin America in the Last Thirty Years

## Public External Debt (% of GDP)



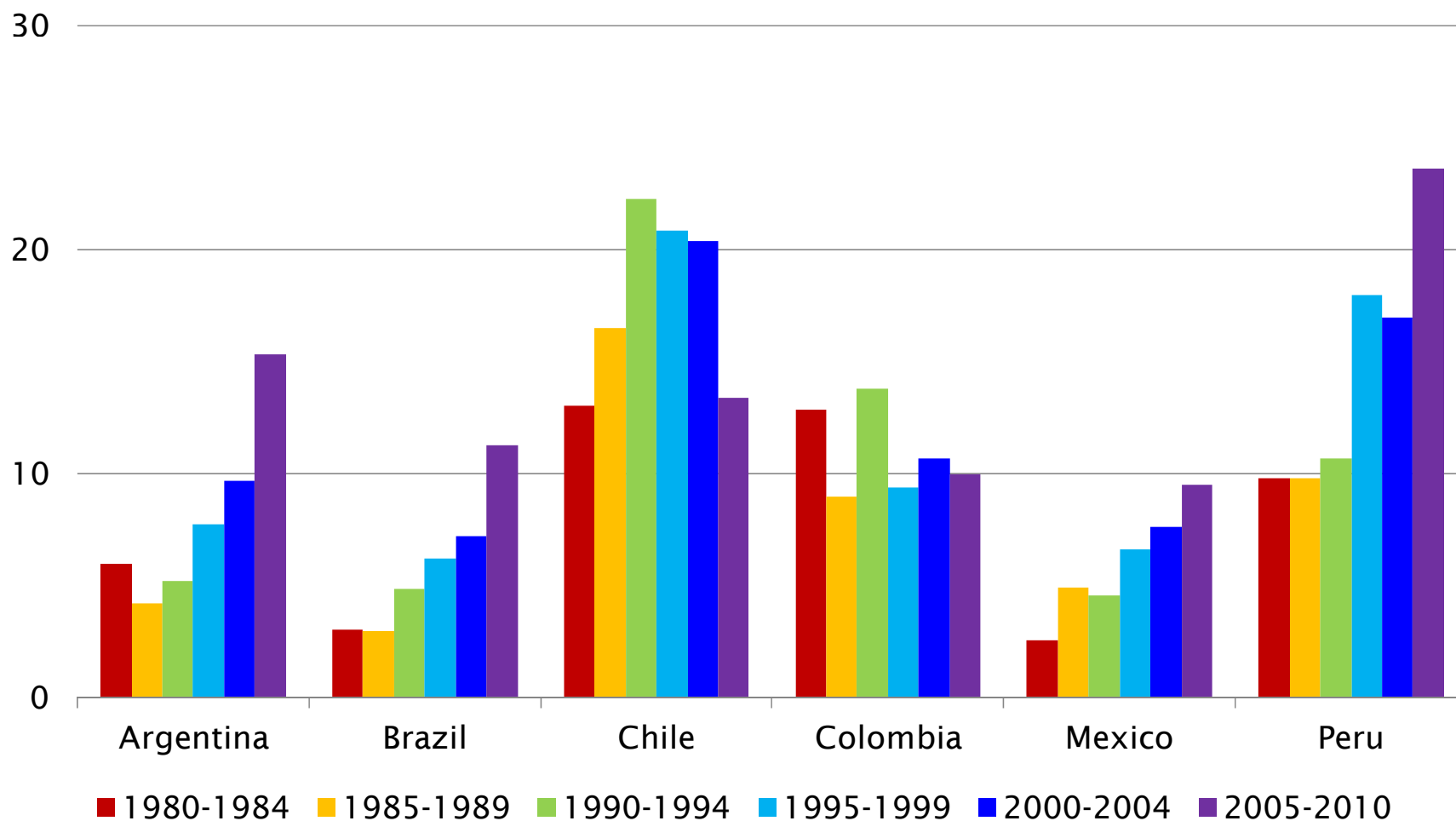
# Latin America in the Last Thirty Years

## Current Account (% of GDP)



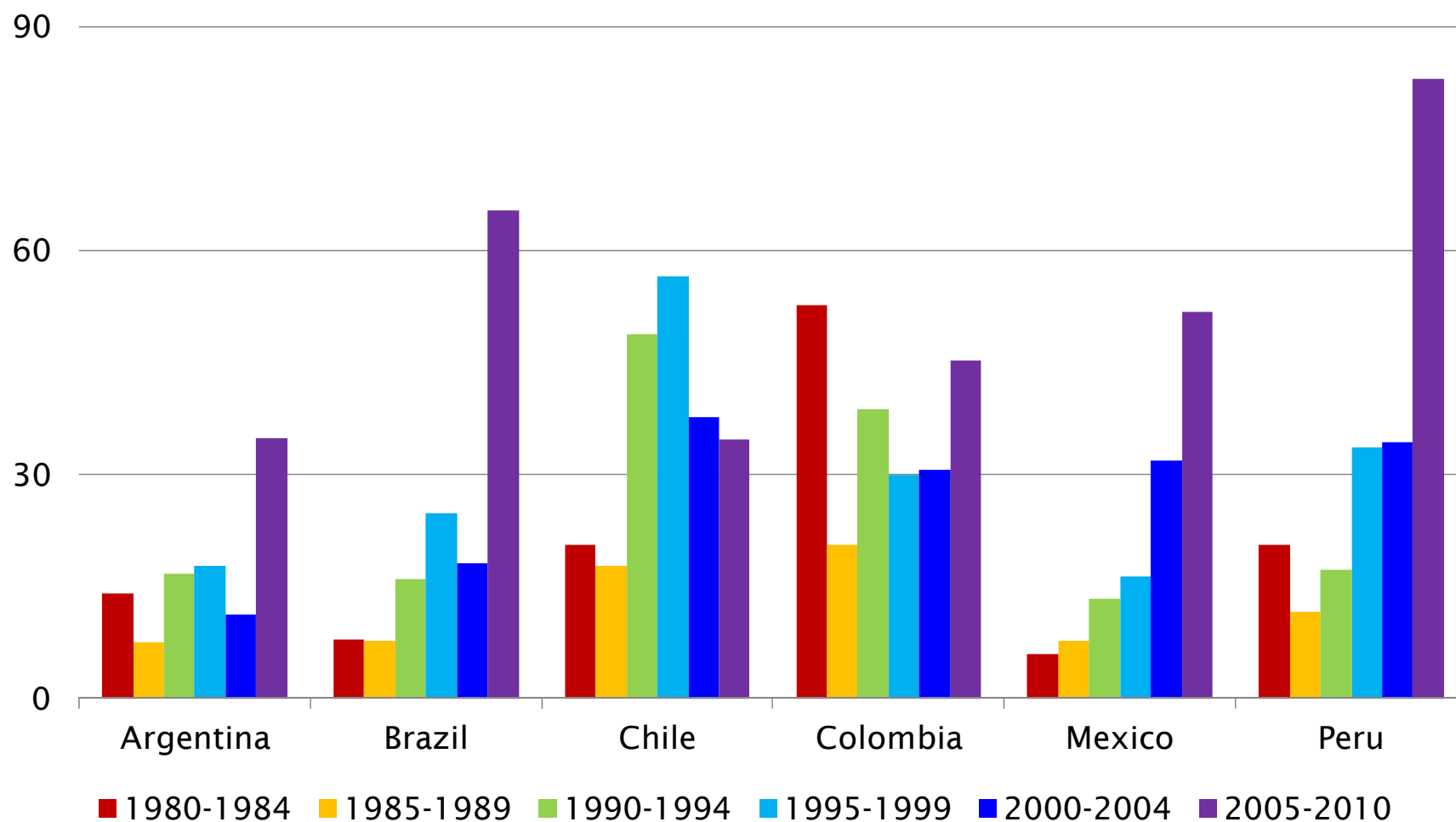
# Latin America in the Last Thirty Years

## Foreign Exchange Reserves (% of GDP)



# Latin America in the Last Thirty Years

Foreign Exchange Reserves (% of total external debt)



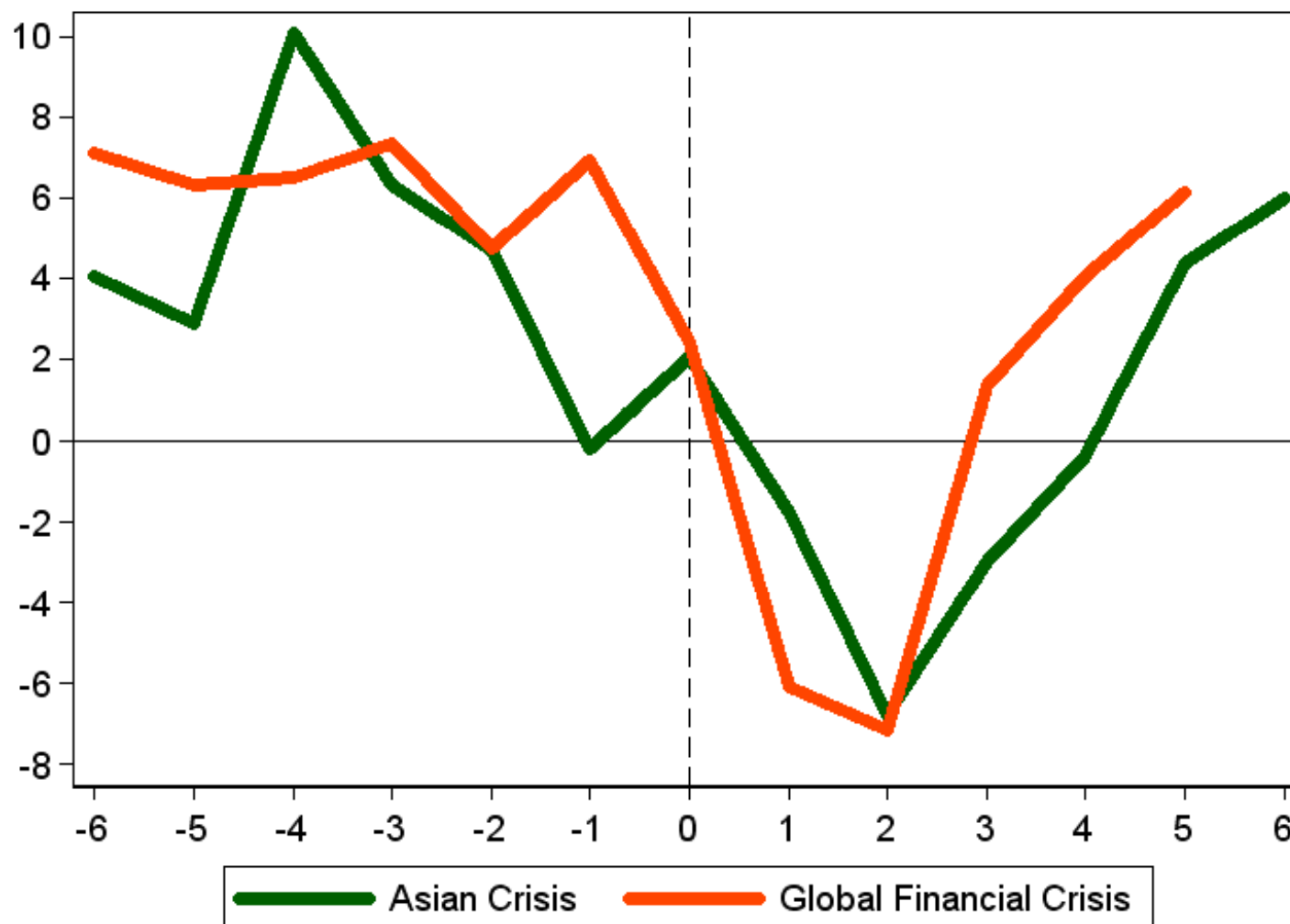
# Latin America in the Last Thirty Years

## Adjustment to shocks: Asian Crisis versus Global Financial Crisis

- Latin America was strongly affected by the international crisis and recession of 2008-2009.
- In comparison to the Asian Crisis, external conditions in the Global Financial Crisis deteriorated sharply with the massive decline in trading partner's growth.
- However, as a result of the reforms of the previous years and the lessons learned from the Asian crisis, when the Global Financial Crisis hit, macro imbalances were more manageable and they were able to implement countercyclical policies.
- As a result, the recovery was quite quick especially in Brazil, Chile, Colombia and Peru, but much slower in Central America and the Caribbean.

# Latin America in the Last Thirty Years

Average GDP growth in LatAm around crises (quarterly figures, % saar)







## 2. Latin America's Economic Outlook

# Latin America's Economic Outlook

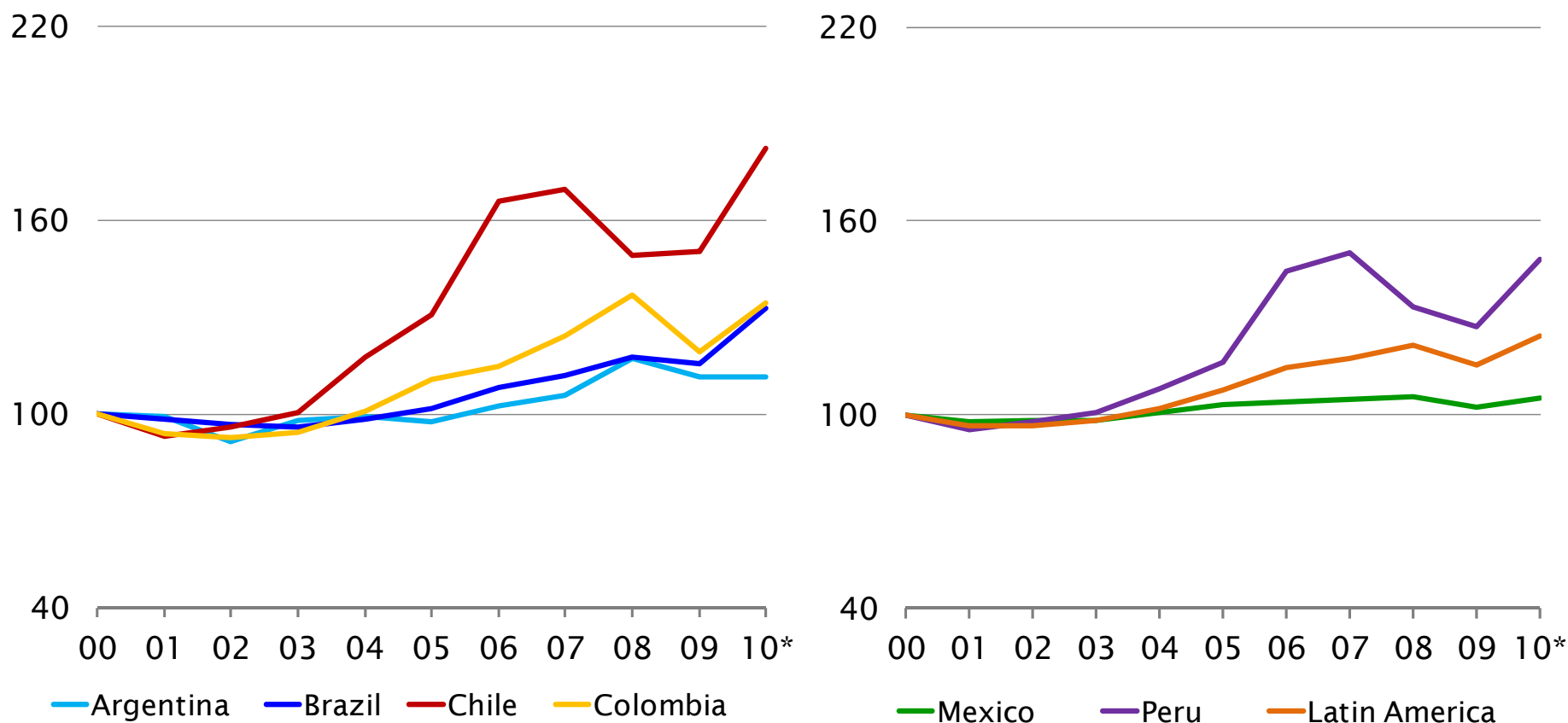
Economic growth has picked up momentum lately

- The region grew 4.2% in 2011, above the rate of growth of potential output.
- Consumption and investment were the main engines of growth, benefiting from favorable terms of trade, employment expansion and accommodative monetary policies.
- After showing a strong dynamism in the first half of 2011, the region's growth slowed down in the third quarter -as the crisis in Europe intensified- but took more dynamism in Q4.
- Overall, the outlook remains relatively favorable: supportive commodity prices, low international interest rates and easy financing conditions.
- Growth for 2012 is estimated at 3.6 as a result of the slowdown of advanced countries and the reduction of policy stimulus.

# Latin America's Economic Outlook

Latin America has benefited from improved terms of trade

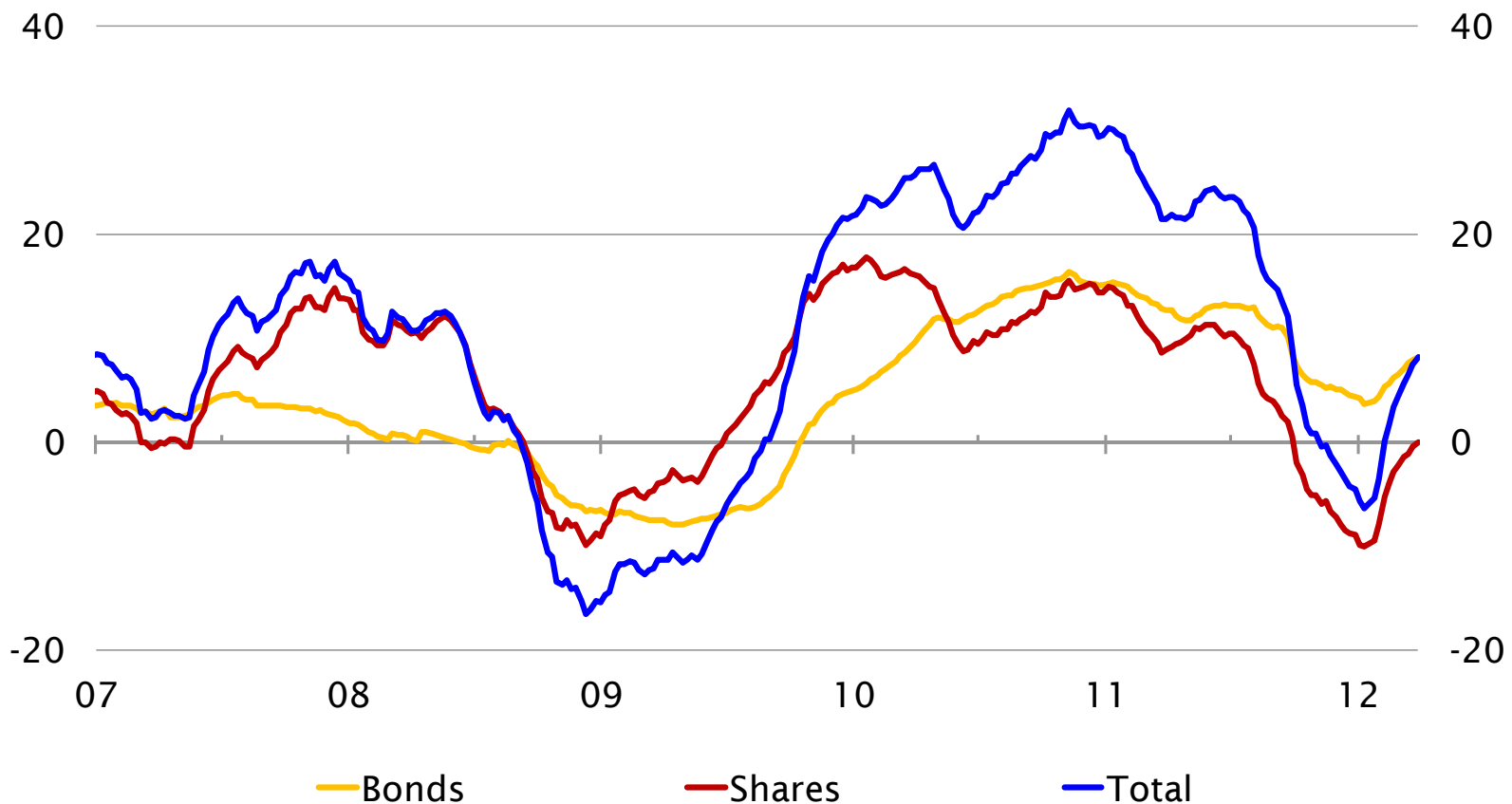
Terms of Trade for Goods and Services  
(Index 2000=100)



# Latin America's Economic Outlook

Capital inflows have recovered

Net Investment Cash Flows in Latin America,  
by Investment Type



# Latin America's Economic Outlook

## Risks to growth

- The main risks to the outlook are a sharp deterioration of the European crisis and a hard landing in China.
- The main defenses against a worsening of the external environment are the high level in foreign reserves, the low public debt to GDP ratios and the solid macroeconomic and financial foundations.
- However, today the region has less room for countercyclical fiscal policies, as the fiscal situation is less favorable now in comparison to 2008.
- Asia is the second country of destination of LAC's exports but China is the main one for Chile, Peru and Brazil.
- Thus, Latin America's growth is highly dependent on China's capacity to achieve a soft landing in its attempt to cool off the economy and to absorb the effects of the European recession.

# Latin America's Economic Outlook

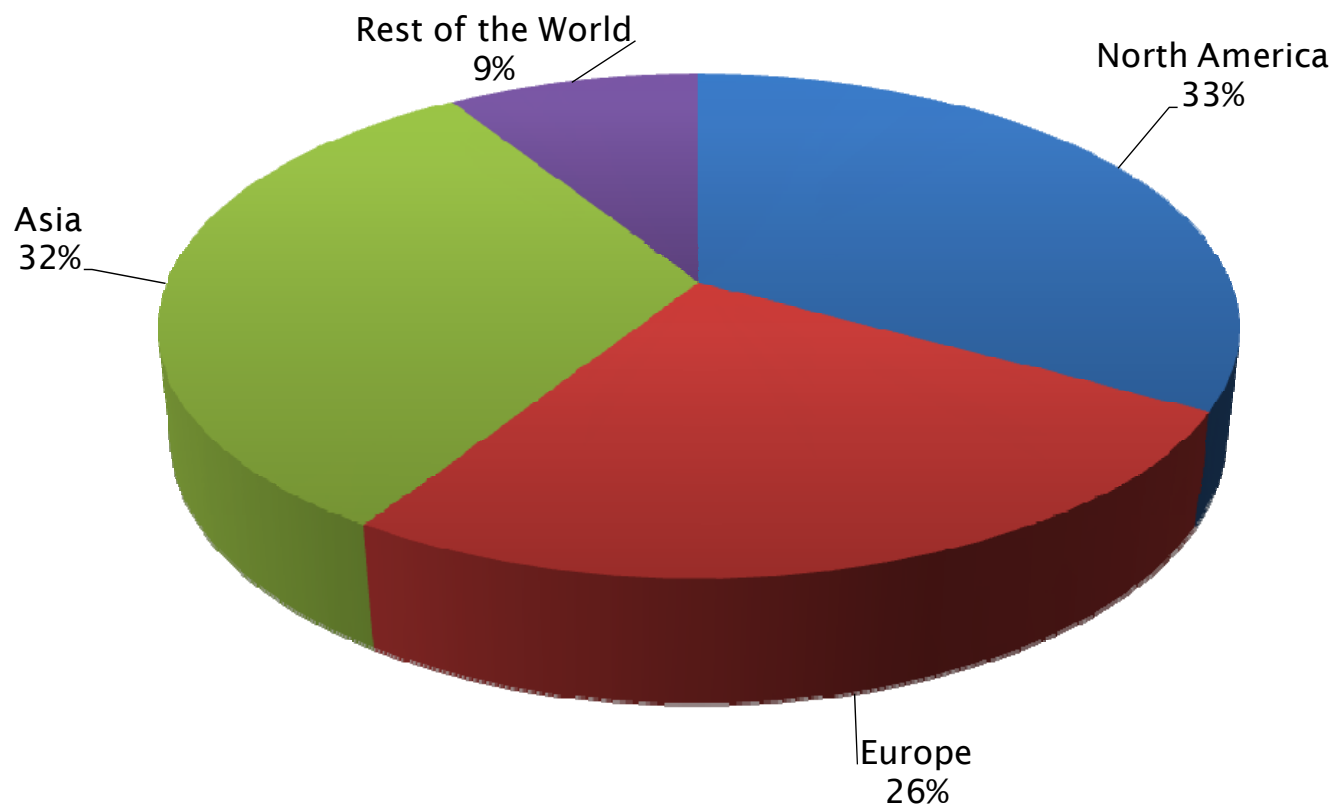
How prepared is the region to face external shocks?

- In the case of primary metals not only China's overall rate of growth is important but also the investment intensity of aggregate demand.
- At this point, it appears that China has all the tools to achieve a soft landing and it looks like it is in the process of achieving such.
- The region has to be prepared also to avoid an unsustainable credit boom fueled by capital inflows.
- Here it is important to have an adequate mix of macroeconomic policies, a good regulation and supervision of the banking system and to develop macro-prudential policy tools.

# Latin America's Economic Outlook

## Inter-regional merchandise trade of LatAm, 2010

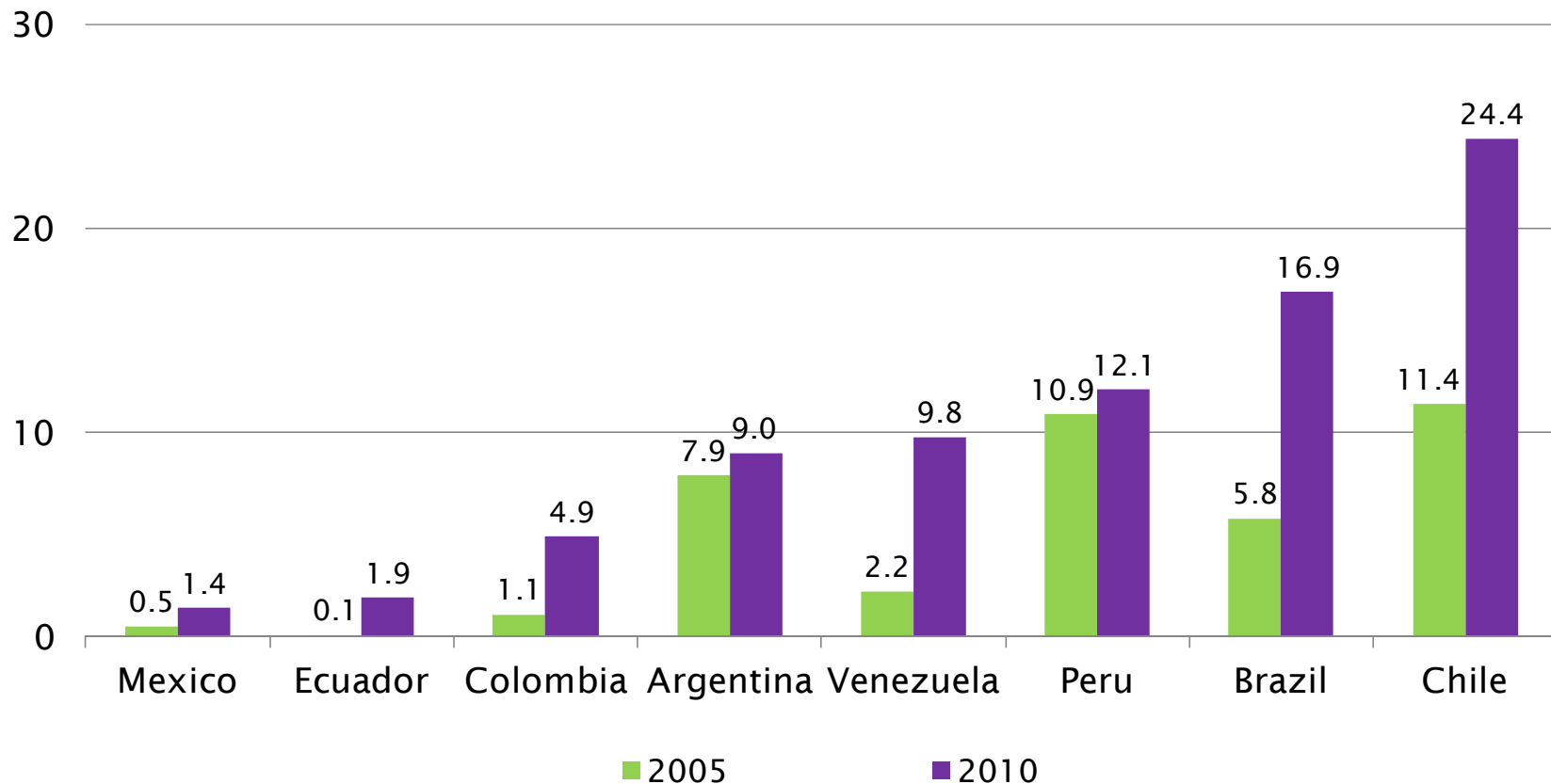
Exports by Destination  
(% of Total Exports of South and Central America)



# Latin America's Economic Outlook

China's share total exports has increased for every country

Exports to China as a share of total exports (%)





# Latin America's Economic Outlook

## Growth and Inflation Forecast

	GDP Growth (%)									
	2010	2011	2012				2013			
			IMF	CF	IB	EIU	IMF	CF	IB	EIU
Argentina	9.2	8.9	4.2	3.5	4.0	3.8	4.0	3.4	3.7	4.0
Brazil	7.5	2.7	3.0	3.3	3.2	3.3	4.2	4.4	4.7	4.5
Chile	6.1	6.0	4.3	4.5	4.6	4.3	4.5	5.0	4.4	4.9
Colombia	4.0	5.9	4.7	5.0	5.3	4.9	4.4	4.7	5.1	4.6
Mexico	5.5	4.0	3.6	3.5	3.5	3.3	3.7	3.4	3.4	3.9
Peru	8.8	6.9	5.5	5.3	5.9	5.1	6.0	6.0	6.3	5.9

	Inflation (Dic-Dic)									
	2010	2011	2012				2013			
			IMF	CF	IB	EIU	IMF	CF	IB	EIU
Argentina	10.9	9.8	10.3	9.7	11.0	10.2	10.3	10.0	11.0	8.7
Brazil	5.9	6.5	5.0	5.1	5.3	5.3	5.0	5.4	5.6	5.0
Chile	3.0	4.4	3.2	3.5	4.1	3.4	3.0	3.1	3.3	3.4
Colombia	3.2	3.7	3.1	3.3	3.6	3.0	3.1	3.4	3.3	3.2
Mexico	4.4	3.8	3.6	3.8	3.9	3.3	3.1	3.7	3.8	3.9
Peru <sup>b</sup>	2.1	4.7	2.6	2.9	3.4	3.4	2.3	2.7	2.7	3.2

Sources: Latin America Consensus Forecasts, April 2012; IMF: WEO, April 2012; Investment Banks: JP Morgan; Barclays Capital and Deutsche Bank.



## 3. Challenges

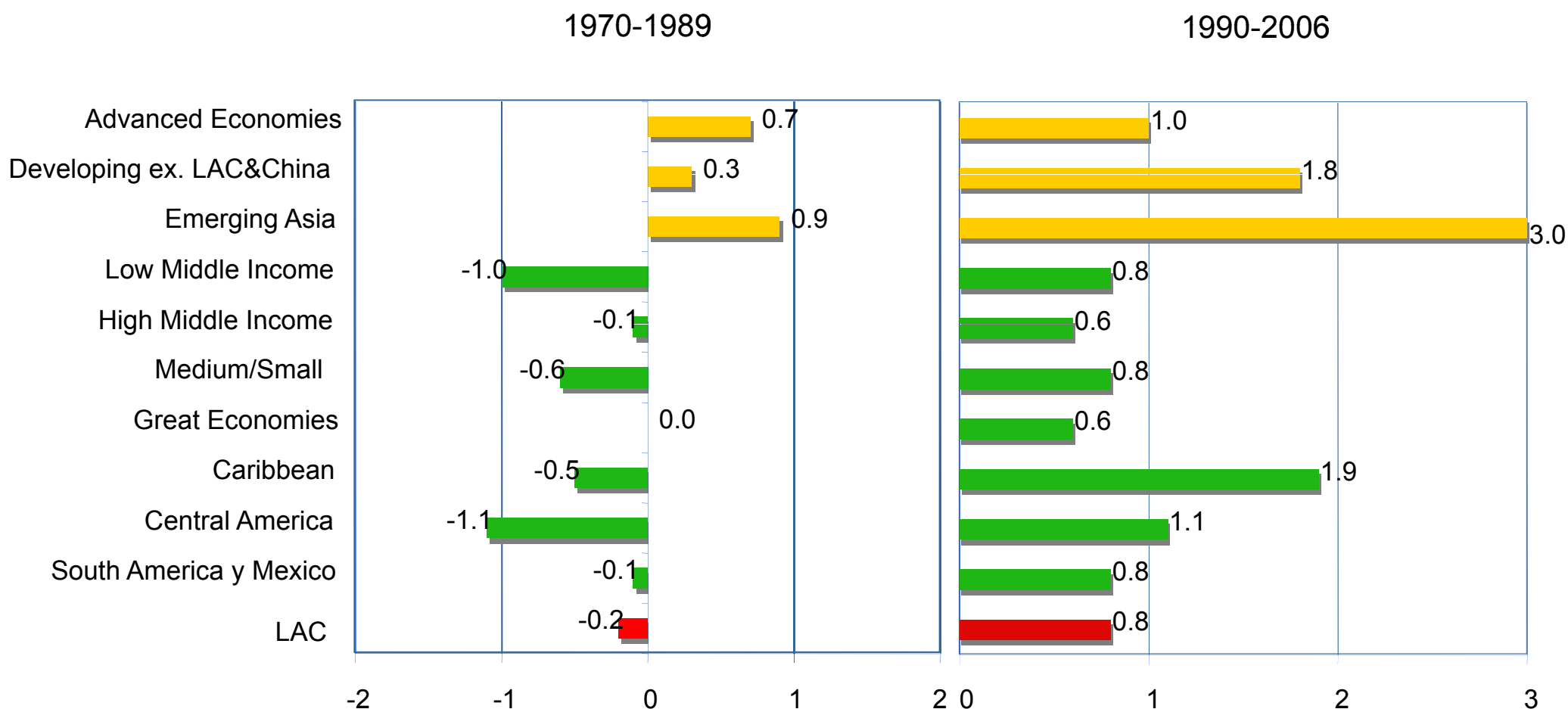
# Challenges

## Growth with Equity

- The main challenge for Latin America today is to administrate the favorable terms of trade creating the conditions for sustainable growth with less dependence on primary commodities and with more equity.
- Progress in these dimensions requires to raise Total Factor Productivity (TFP) and to upgrade the human capital base, especially the one of the poorest.
- High growth and a better distribution of human capital will also help to improve the bad income distribution of the region.

# Challenges

## Rate of Growth of TFP (Percentage points per annum)



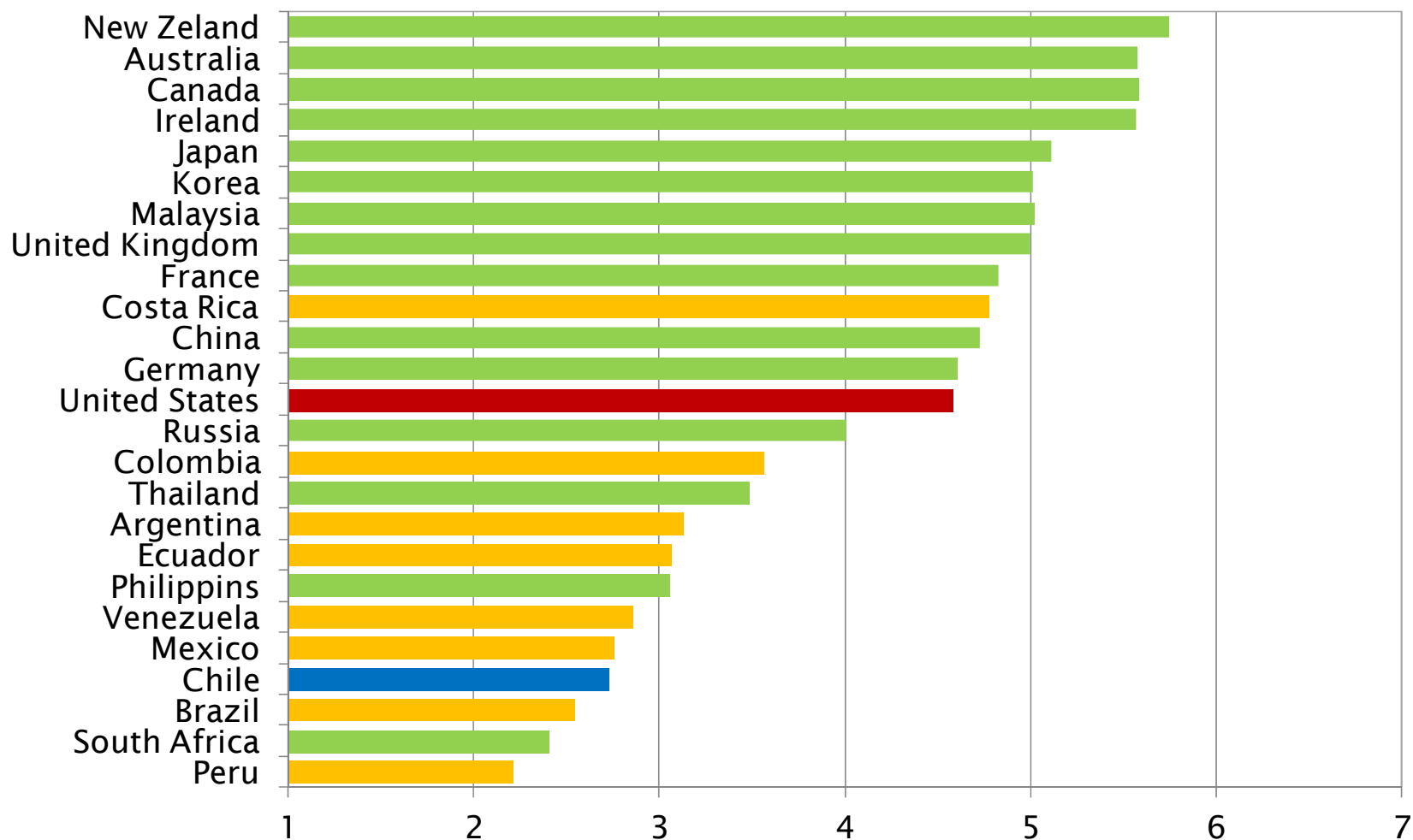
# Challenges

## A pending reform agenda

- To achieve its objectives, the region needs to work on many fronts:
  - (1) Increase competition, specially in the service sectors;
  - (2) Strengthen human capital formation (improve the quality of public education and training);
  - (3) Improve the functioning of labor markets (more flexibility in working conditions and more security in contracts);
  - (4) Improve the efficiency of the State (from poverty focus to a focus on providing services to the middle class and improving governance);
  - (5) Upgrade the framework for technological innovation.

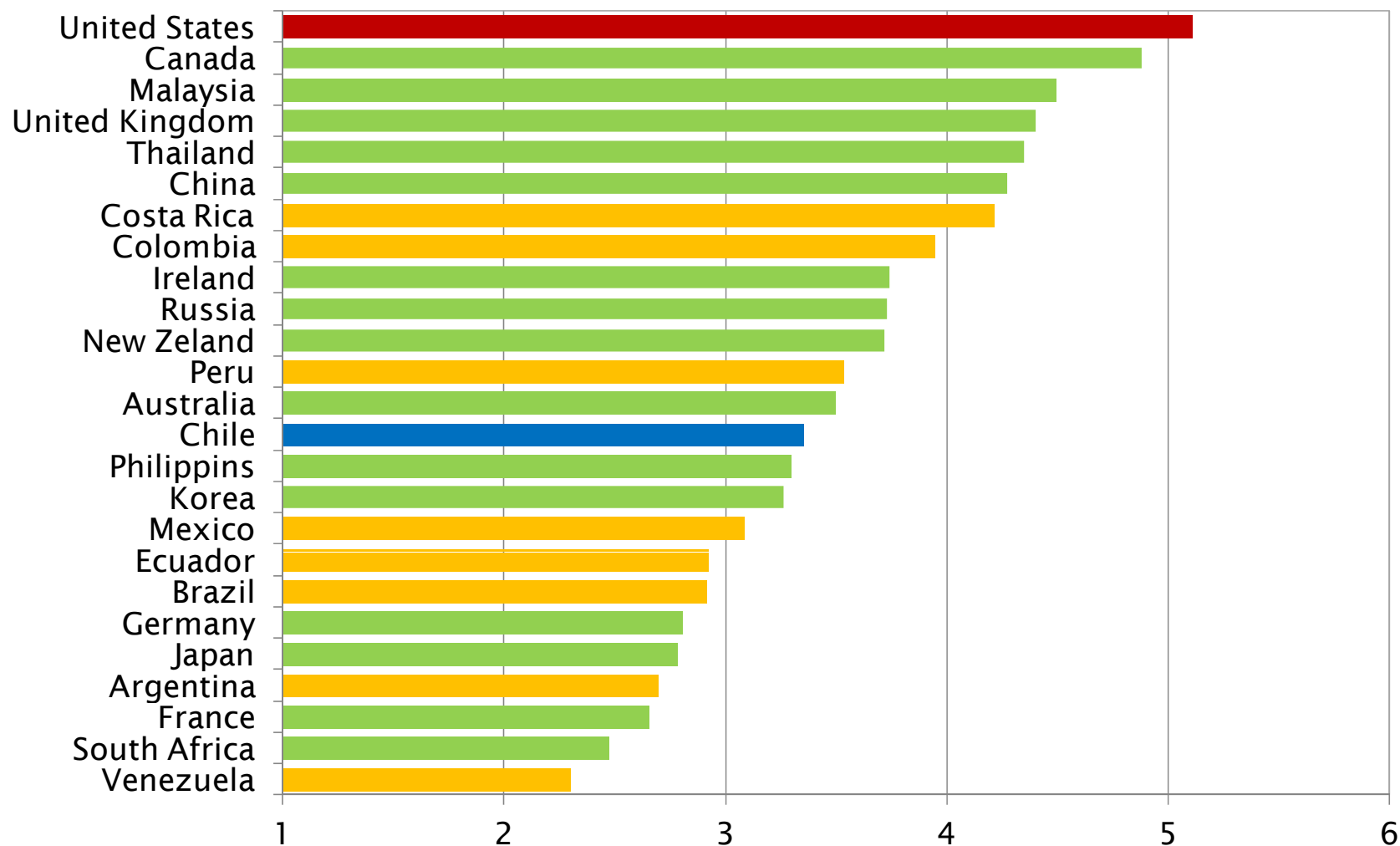
# Challenges

## Quality of Primary Education Index 2011-2012



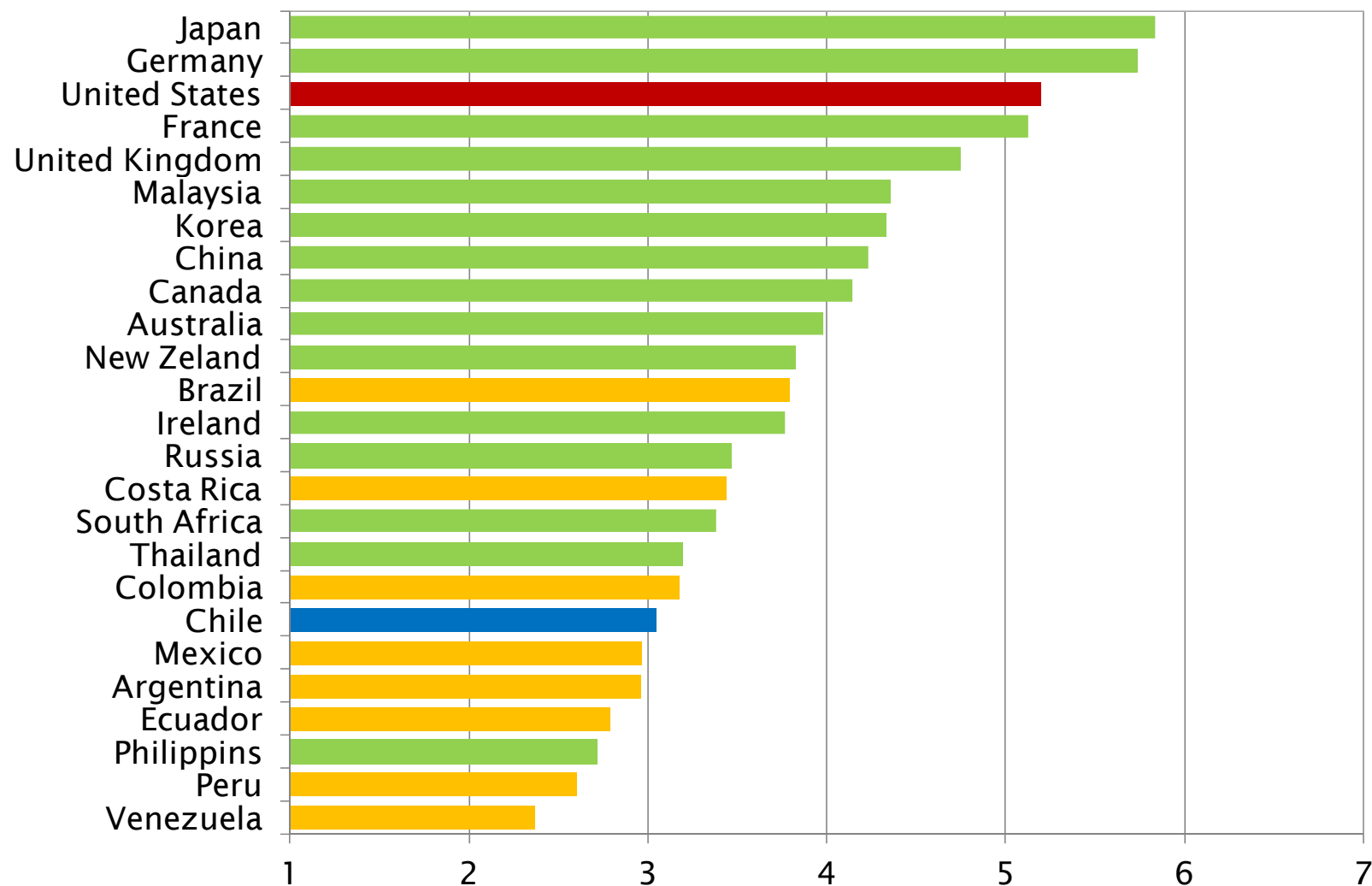
# Challenges

## Labor Market: Hiring and Firing Practices Index 2011-2012



# Challenges

## Capacity for Innovation Index 2011-2012





# Challenges

How to tackle the income distribution issue?

- Advances in technologies results in a substantial increase in the demand for human capital and the globalization increases the supply and reduce the demand for low skill labor.
- Thus, in an open market economy the opportunities to improve income distribution are in improving the human capital of the bottom there quintiles of the income distribution.
- For this what is required is an upgrade of the quality of the pre-school, pre-primary, primary and secondary education that receive the poorest groups in the population.
- A level playing field is a prerequisite to go the extra mile in improving their access to technical and university education.
- Higher education is a very good private investment for students that have the pre-requisites to succeed; a good quality pre-university education.

A satellite-style image of the Earth, showing the Americas. North America is in the upper left, and South America is in the lower right. The image is partially obscured by a bright, hazy light source on the right side, creating a gradient effect.

# The Awakening of Latin America

Vittorio Corbo

Centro de Estudios Públicos

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