
A New Latin America, an Old Growth Problem?

Augusto de la Torre

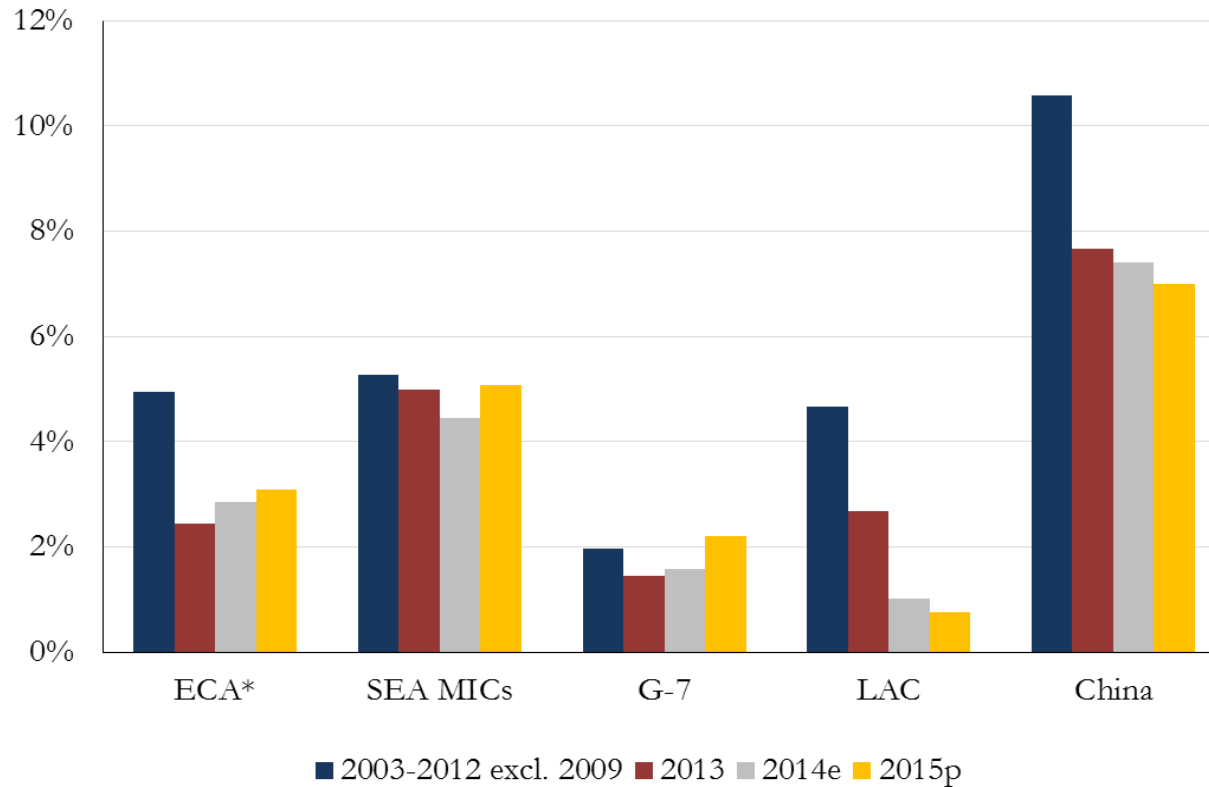
31^o Congreso Latinoamericano de Comercio Exterior

1-2 de junio de 2015
San José, Costa Rica

Where are we?
Not in Kansas anymore

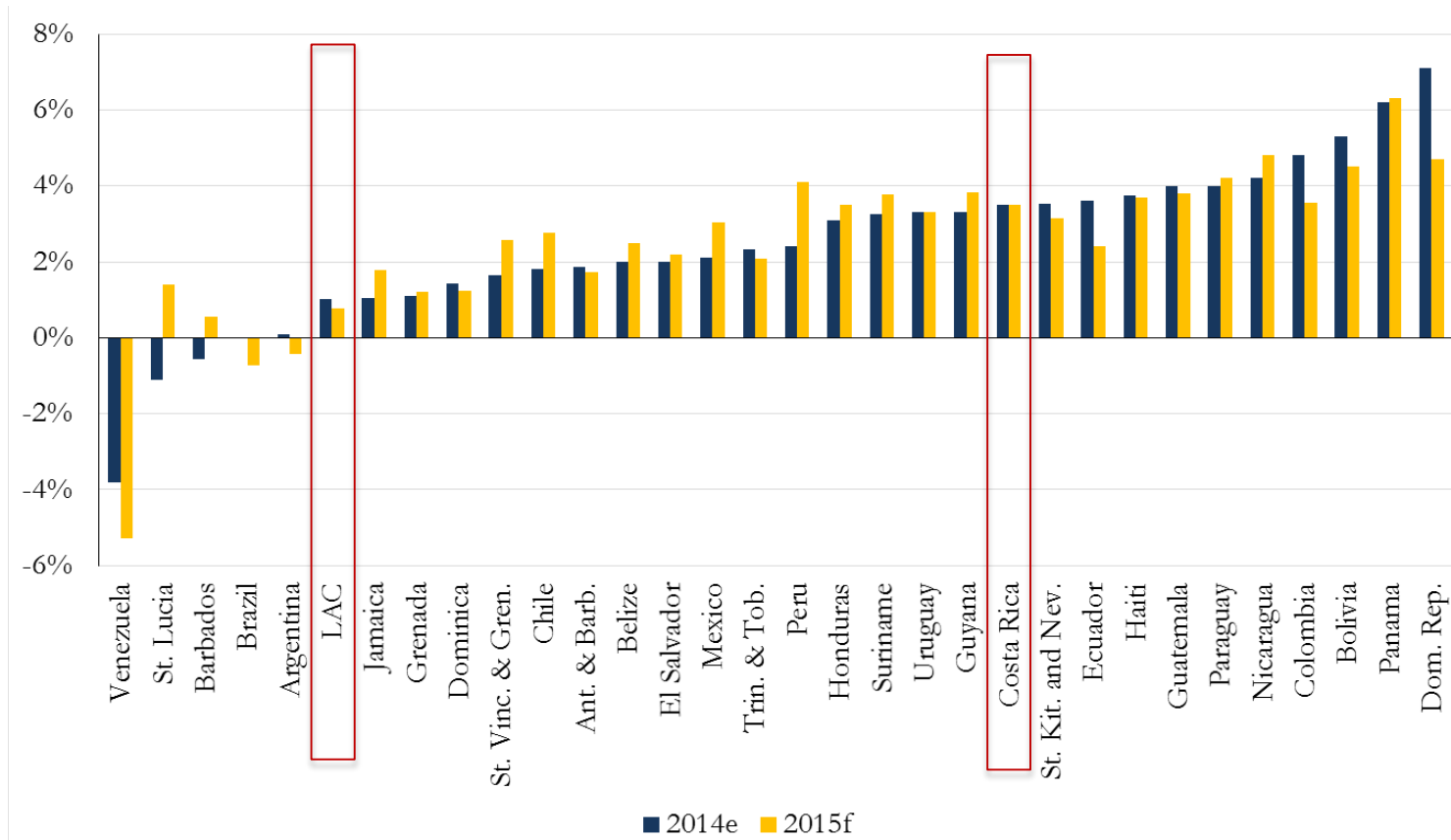
The deceleration in LAC was unexpectedly large, abrupt, and more pronounced than in other emerging regions...

GDP Growth and Forecasts by Region



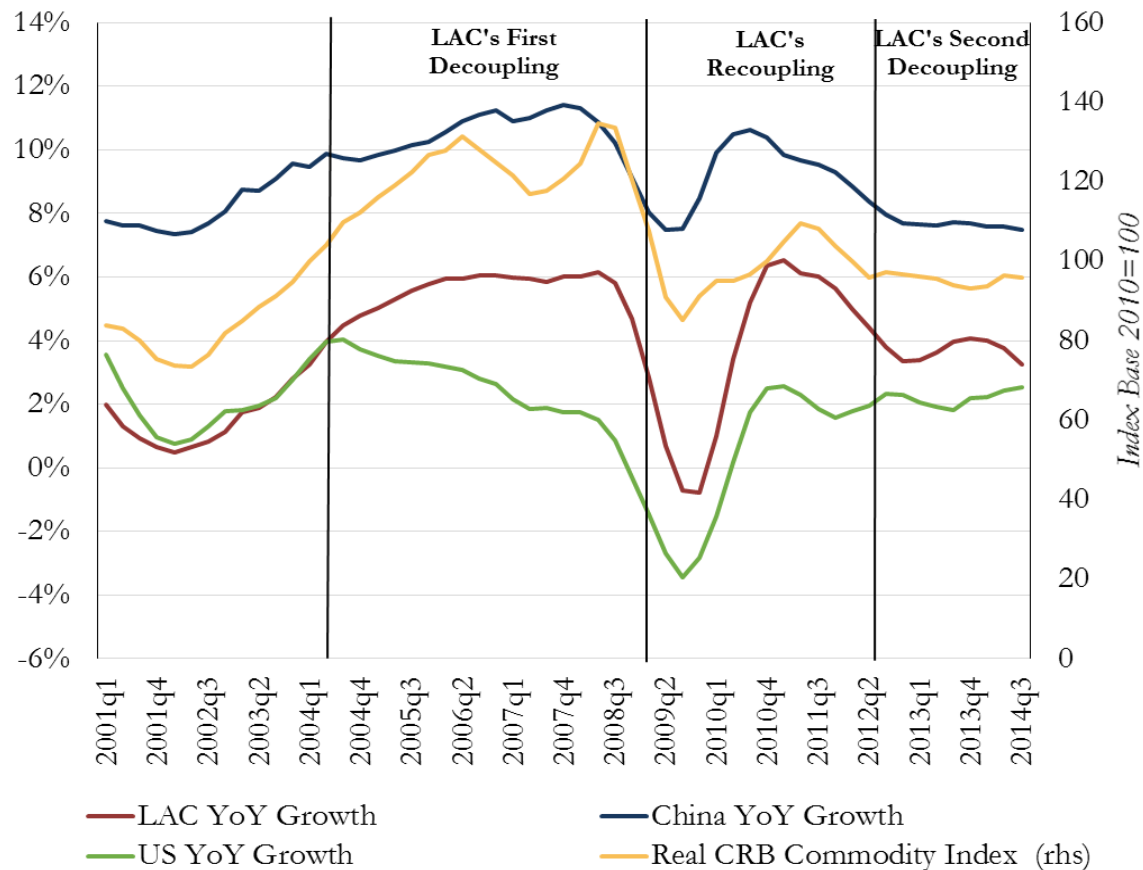
...yet not uniformly distributed, hitting the commodity exporters much harder

GDP Growth Estimates and Forecasts



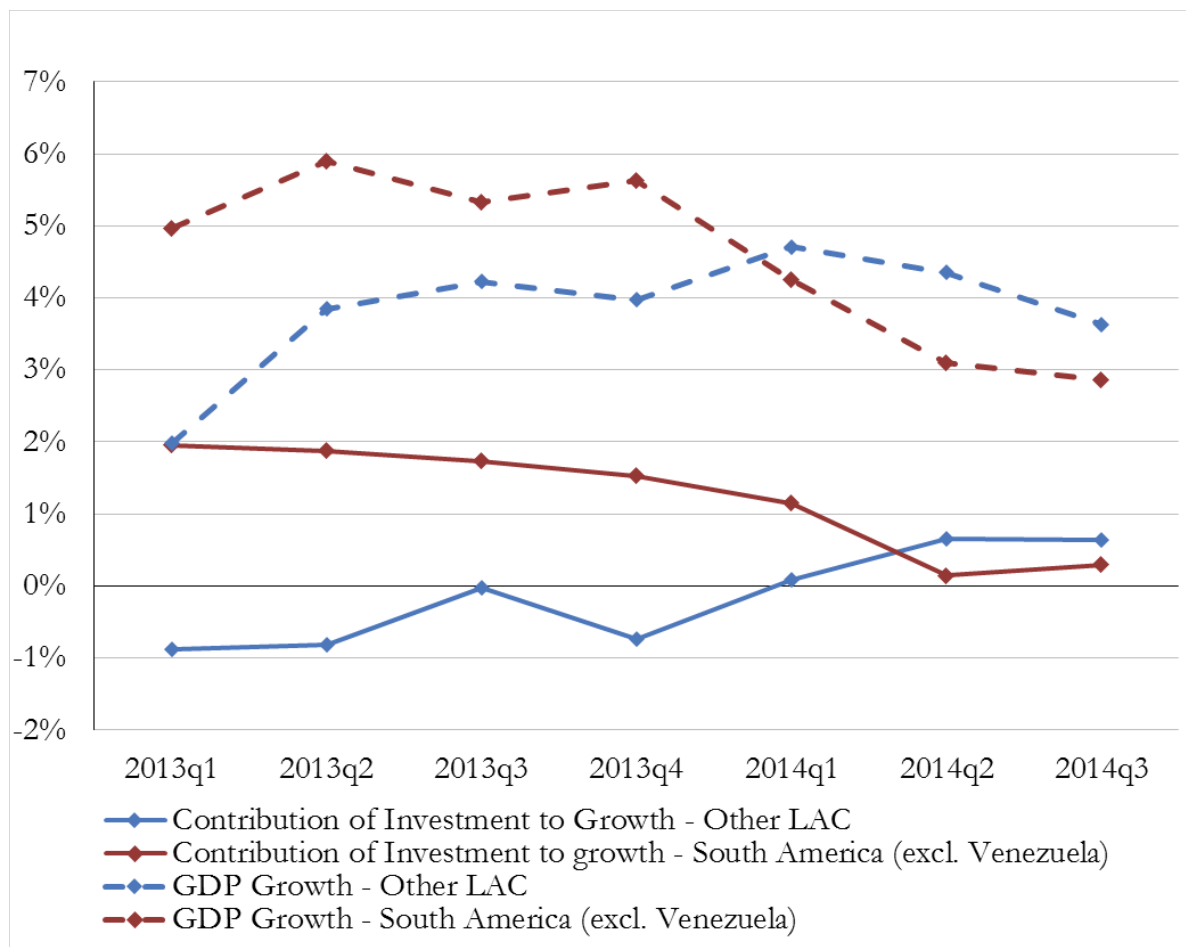
The deceleration went in tandem with the big China and commodities cycle, yet in an amplified way

LAC, China, and U.S. Growth, and Commodities



The amplification was due to a sharp contraction in investment, but employment effects are lagging

LAC: Investment Contribution to GDP Growth

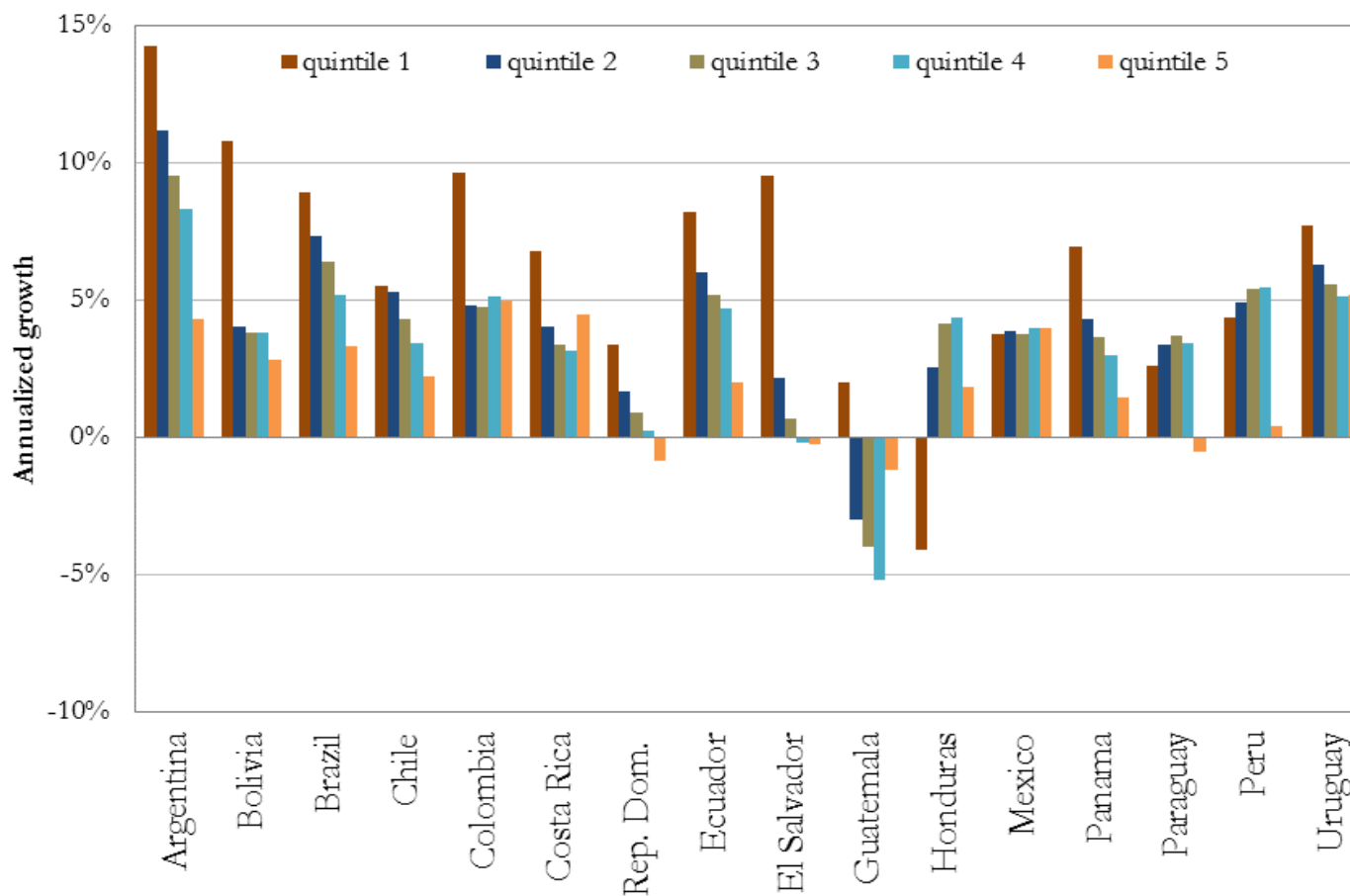


A New Latin America...

After a decade of remarkable pro-poor growth...

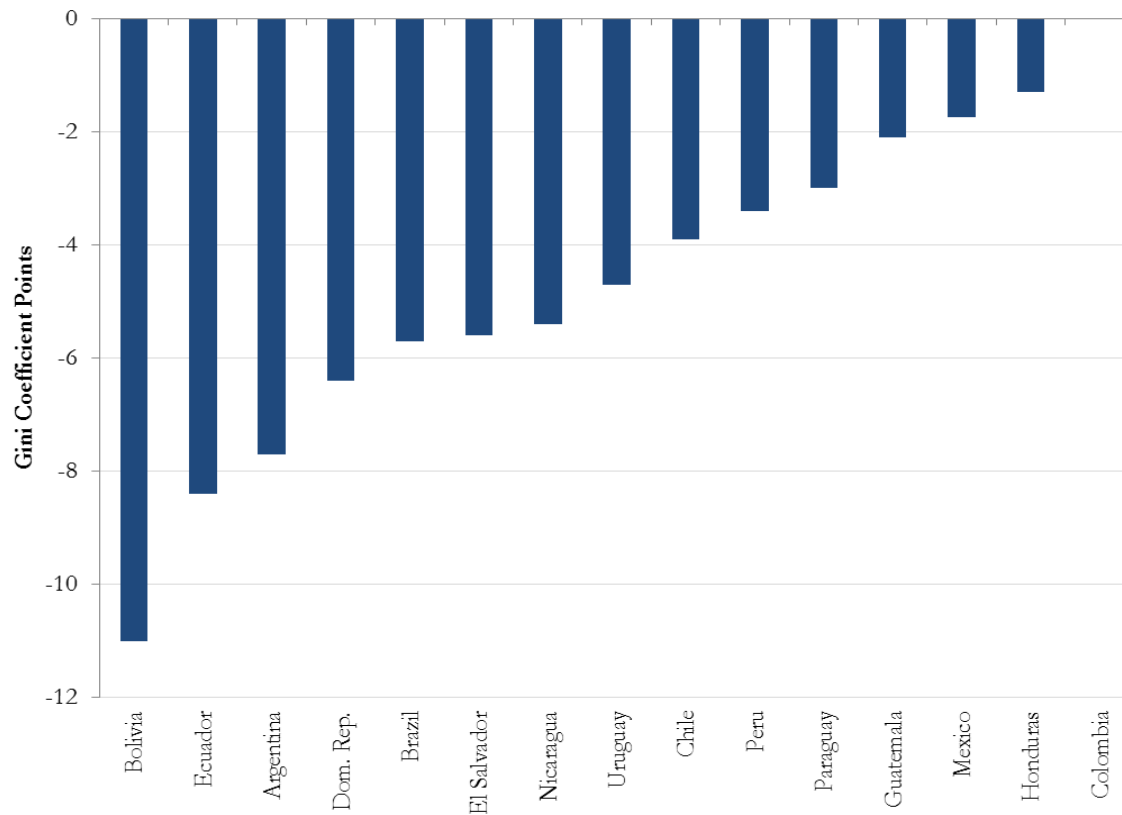
Income Growth Across Quintiles in LAC

Early 2000s - Late 2000s



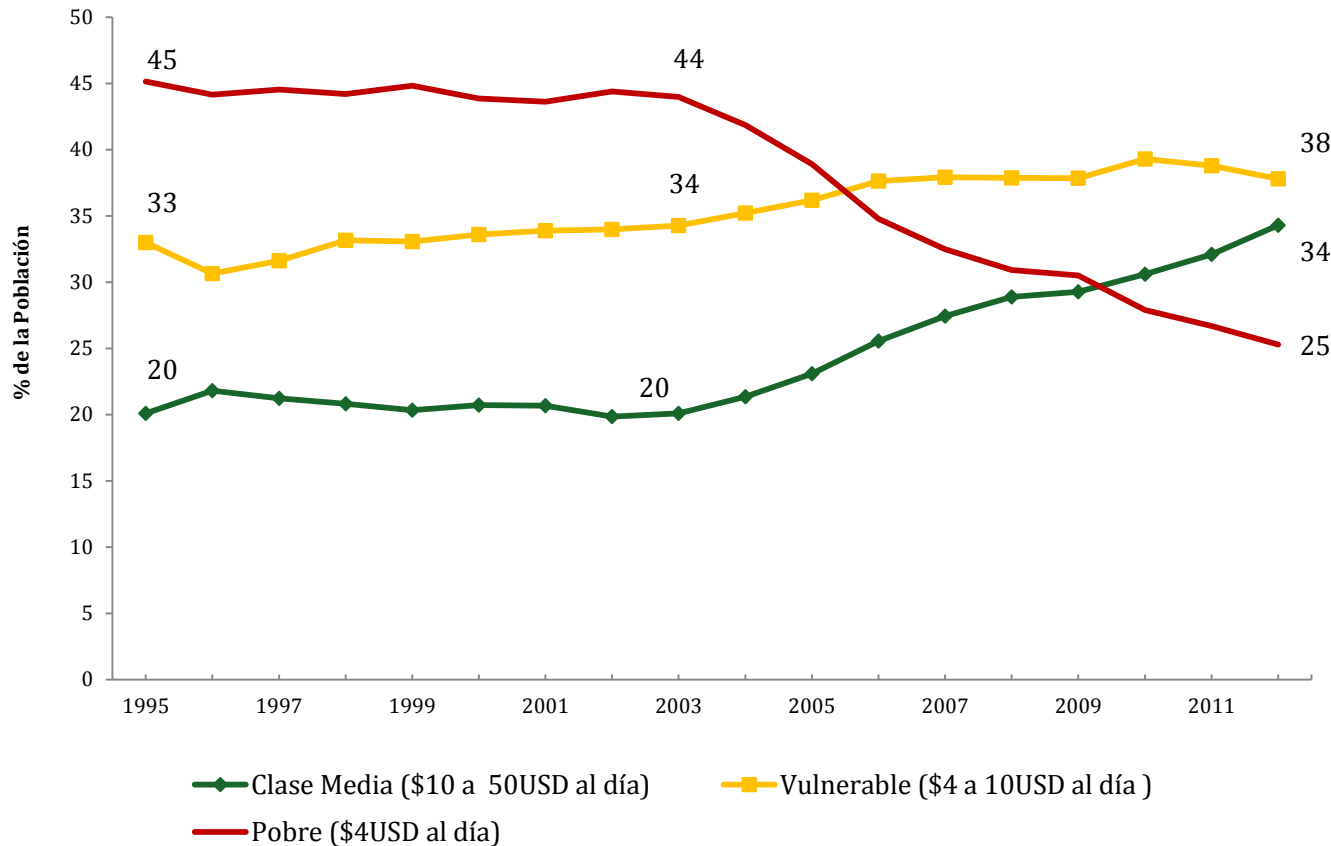
...and an unexpectedly large decline in income inequality...

Latin America: Changes in the Gini Index of Income Inequality 2003–2012

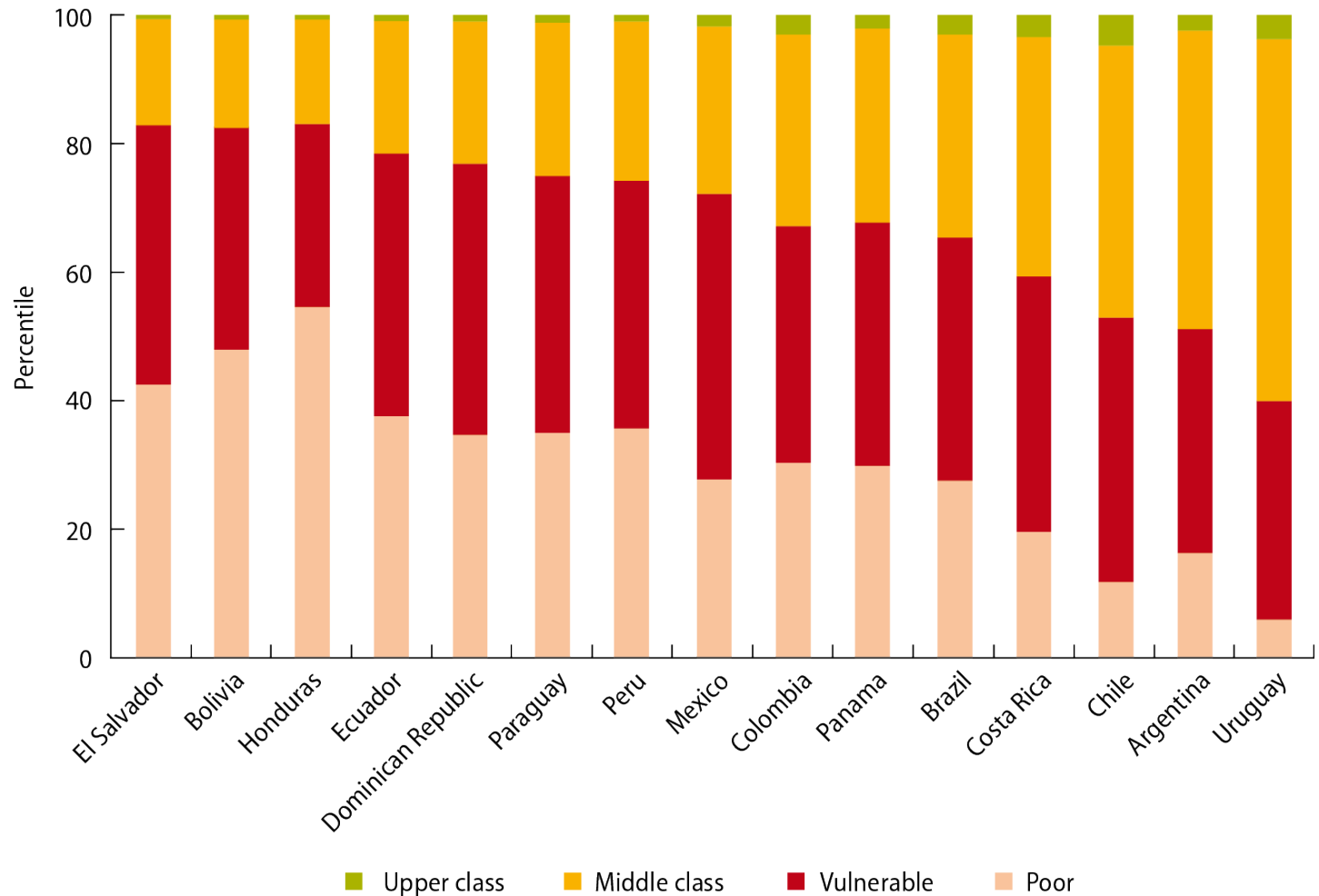


... Latin America finds itself with a deeply changed social structure

Evolution of the Social Structure in Latin America



Latin America is a *middle income* region on the way to a *middle class* region



A new macro-financial immune system has helped Latin America overcome the “original sin” ...

Latin America’s New Macro-Financial Immune System

Before

Weak/non
credible/pro-cyclical

Fragile/unsound

Fragile/unviable/
pro-cyclical

**Currency/Monetary
Policy**

**Banking/Prudential
Policy**

Debt/Fiscal Policy

Now

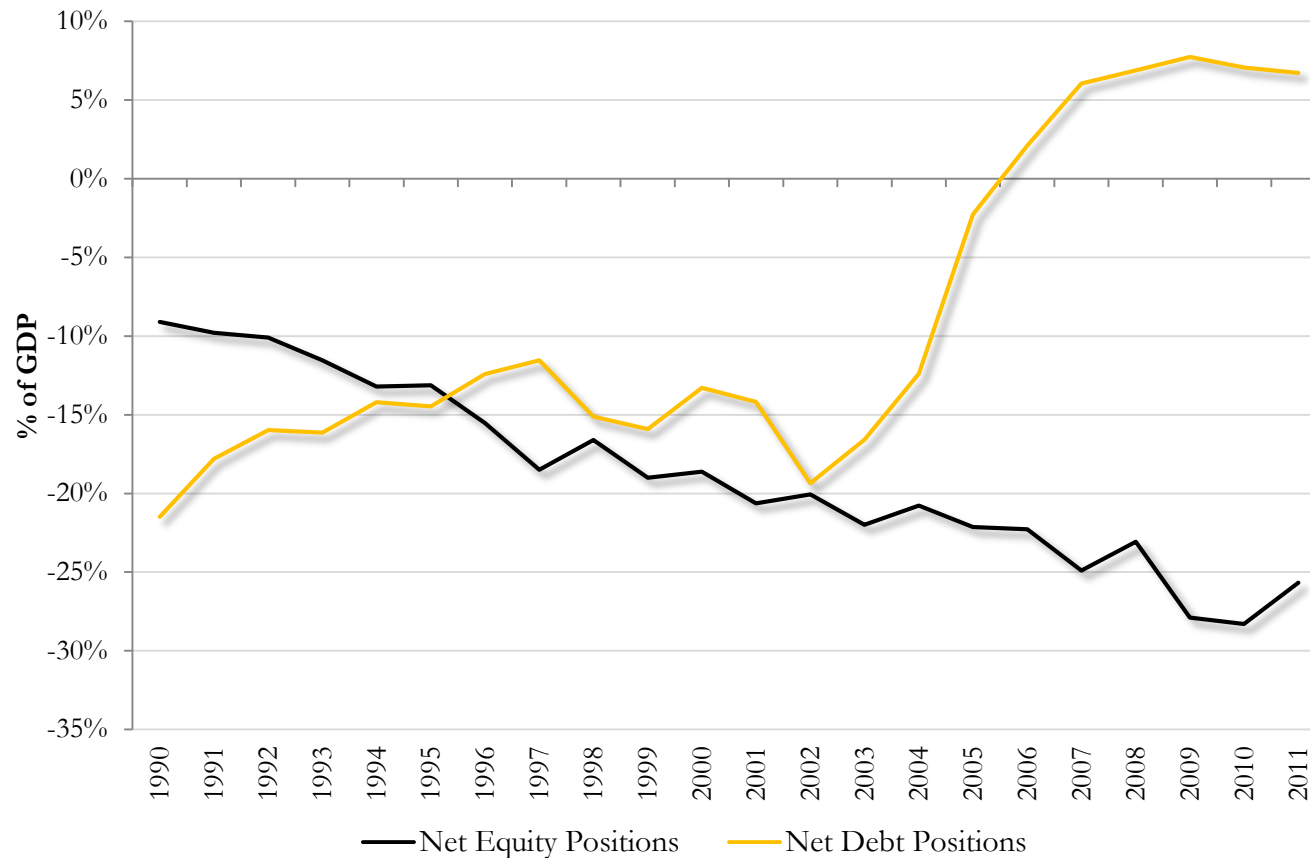
Credible/counter
cyclical

Sounder

More viable/less
pro-cyclical

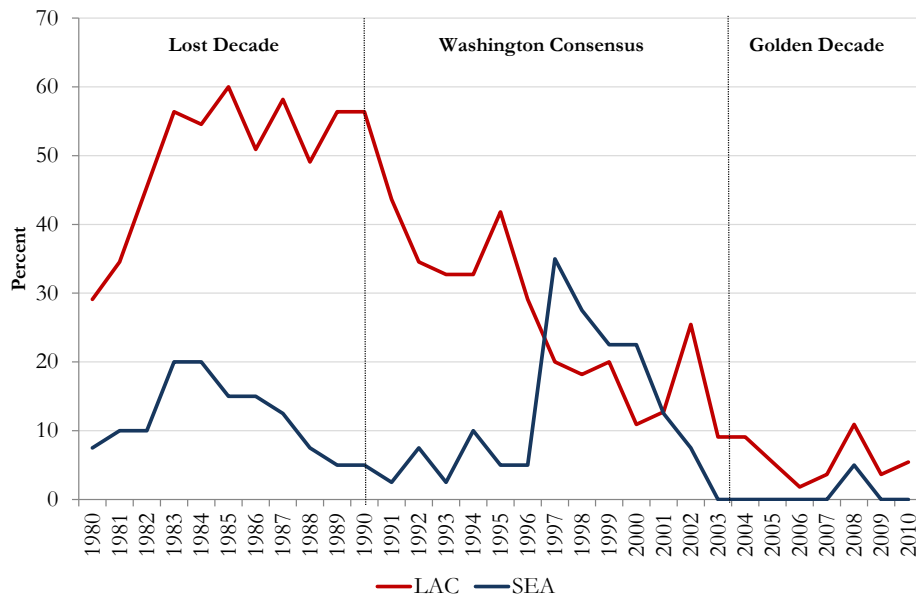
... and the macro-financial improvement was buttressed by a safer form of international financial integration...

LAC's Asset Liability Positions vis-à-vis the Rest of the World

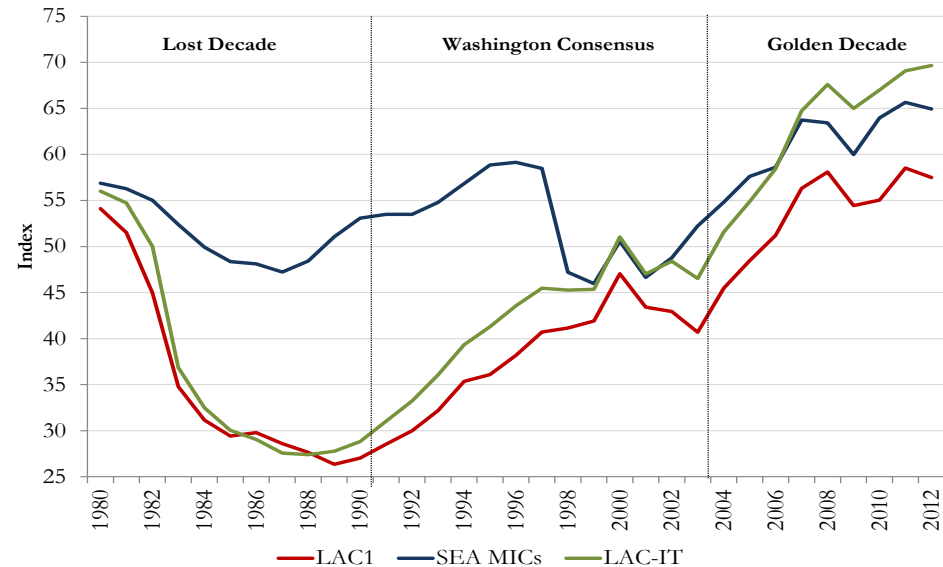


... all of which moved Latin America out of recurrent macro-financial crises and into a better “asset class”

Incidence of Crises: Latin America and South East Asia



Country Risk Ratings
Simple Averages



...with the same old growth problem?

The reconfiguration of external factors is here to stay; hence, LAC as a whole is back to low growth

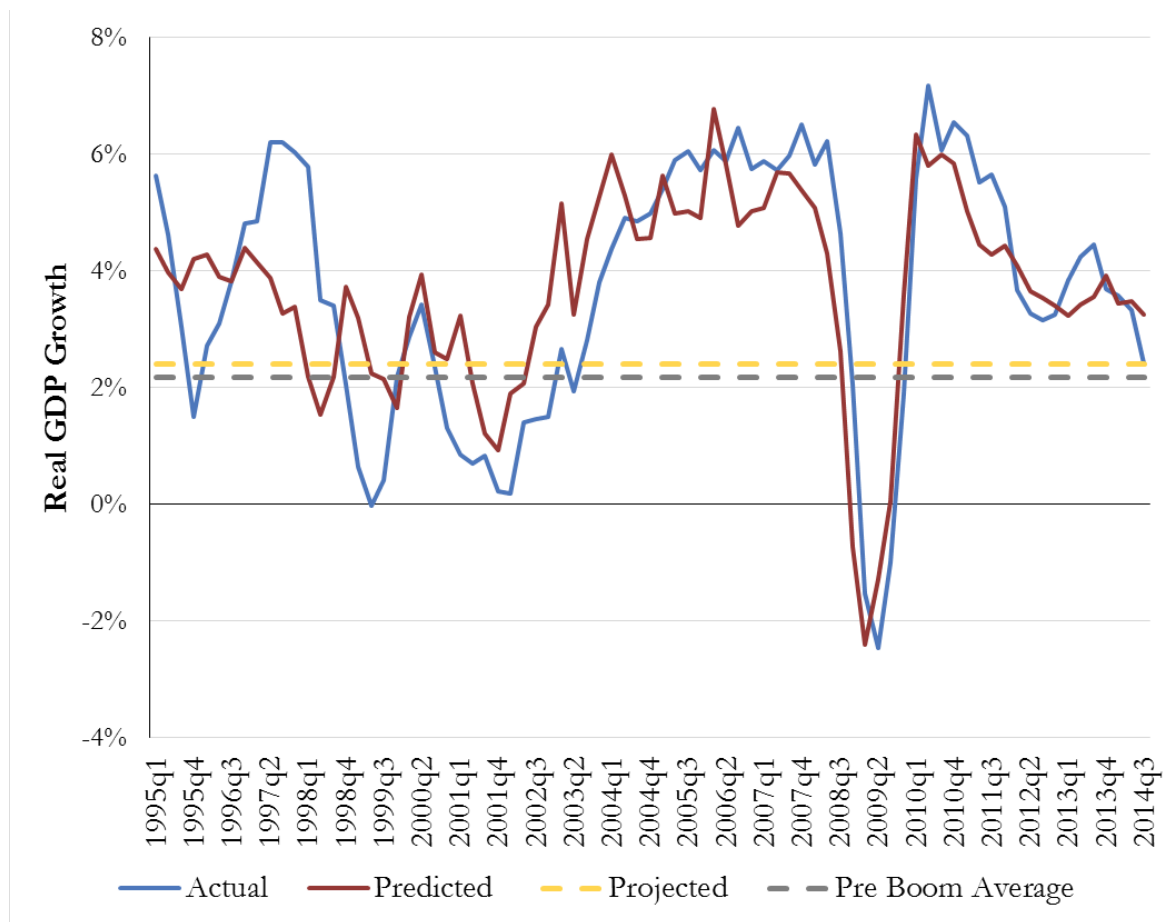
LAC: Average Growth by Period and Forecast



- China's growth settling around 7 percent.
- G-7's growth picking up, mainly due to the U.S.
- Yet, uncertainty still looms:
 - The new equilibrium of commodity prices is hard to know
 - Europe and Japan can drag G-7's growth
 - Strong dollar appreciation could undercut US growth momentum

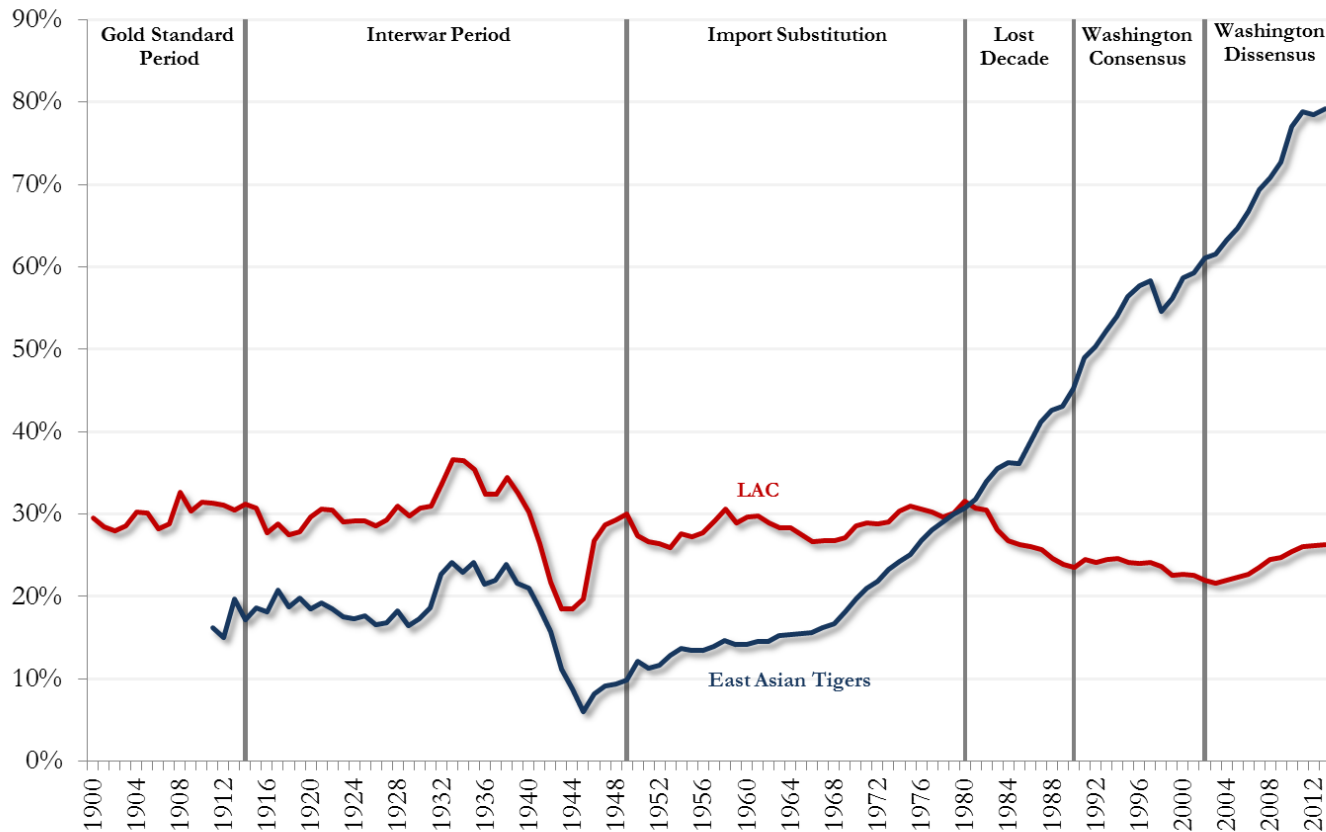
China and the commodity cycle explain most of the growth fluctuations in LAC *but not the mean*

LAC's Growth Largely Explained by External Factors



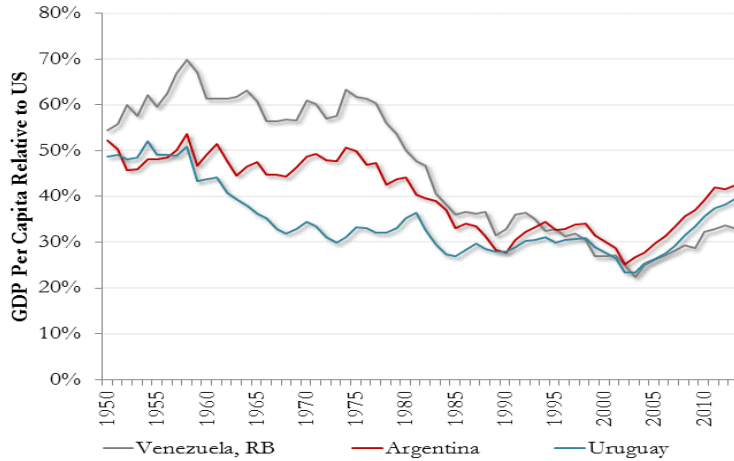
Is LAC returning to the “hundred years of growth solitude” syndrome?

GDP Per Capita Relative to the US
Weighted Averages, in constant dollars

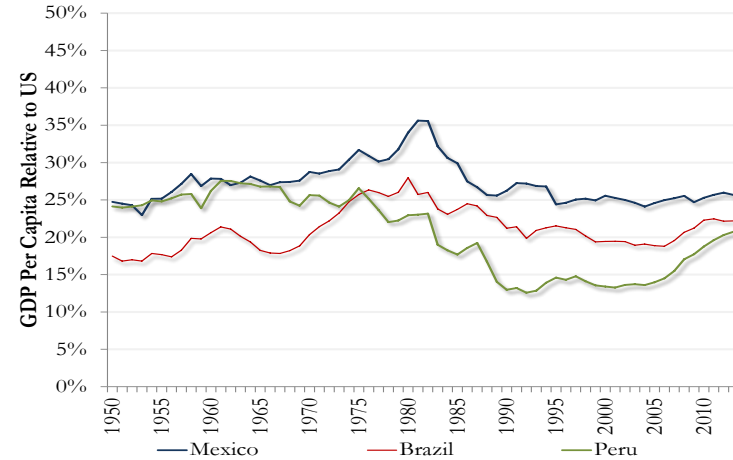


Low growth has been a LAC-wide malady

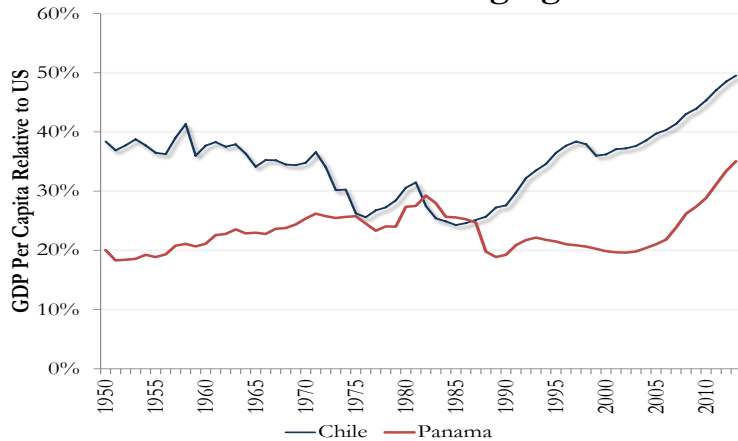
Nose Divers



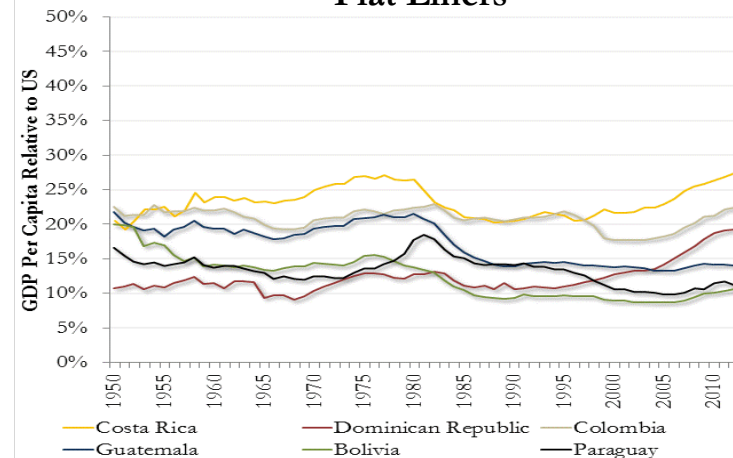
Fluctuating



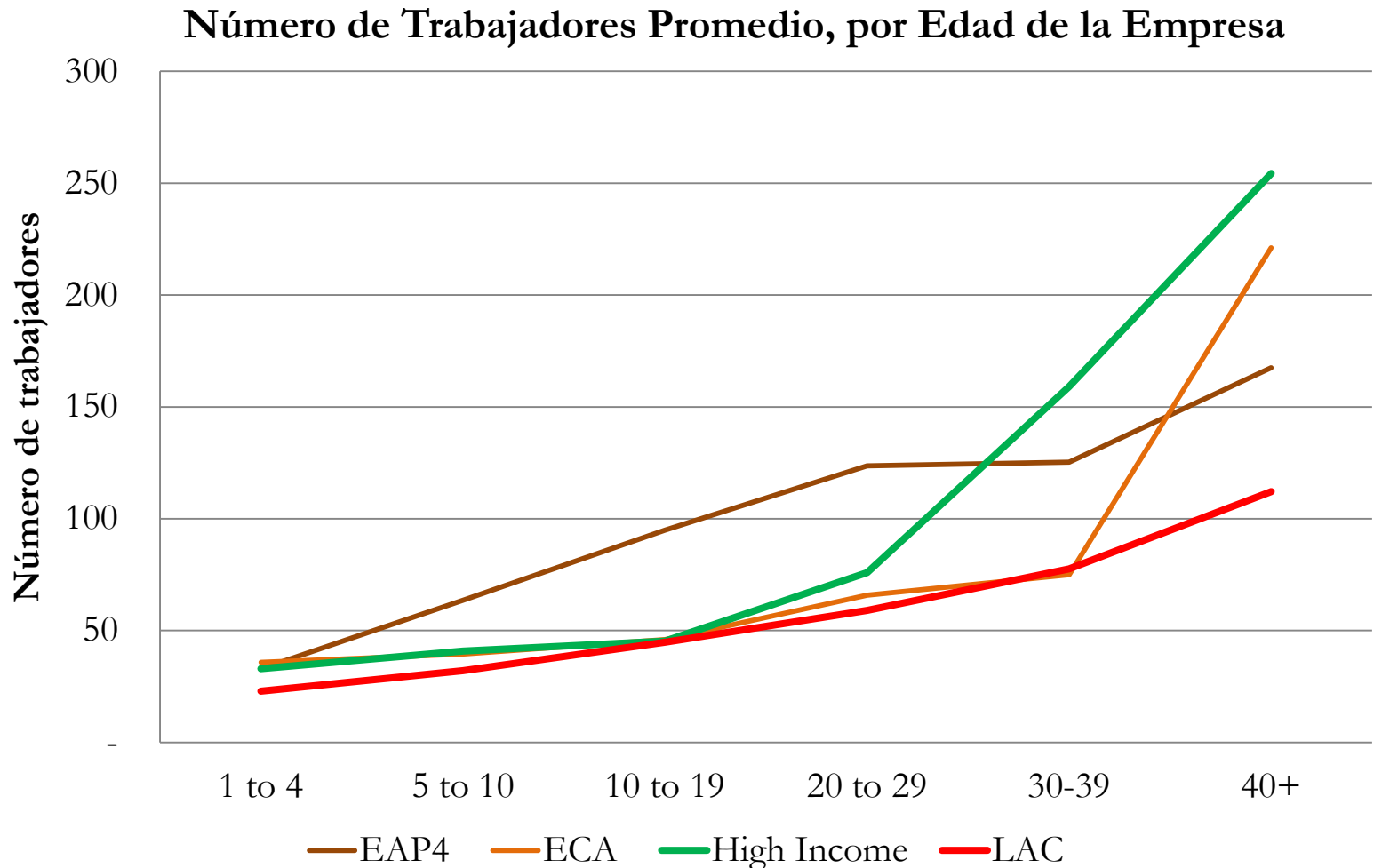
Semi-Converging



Flat Liners

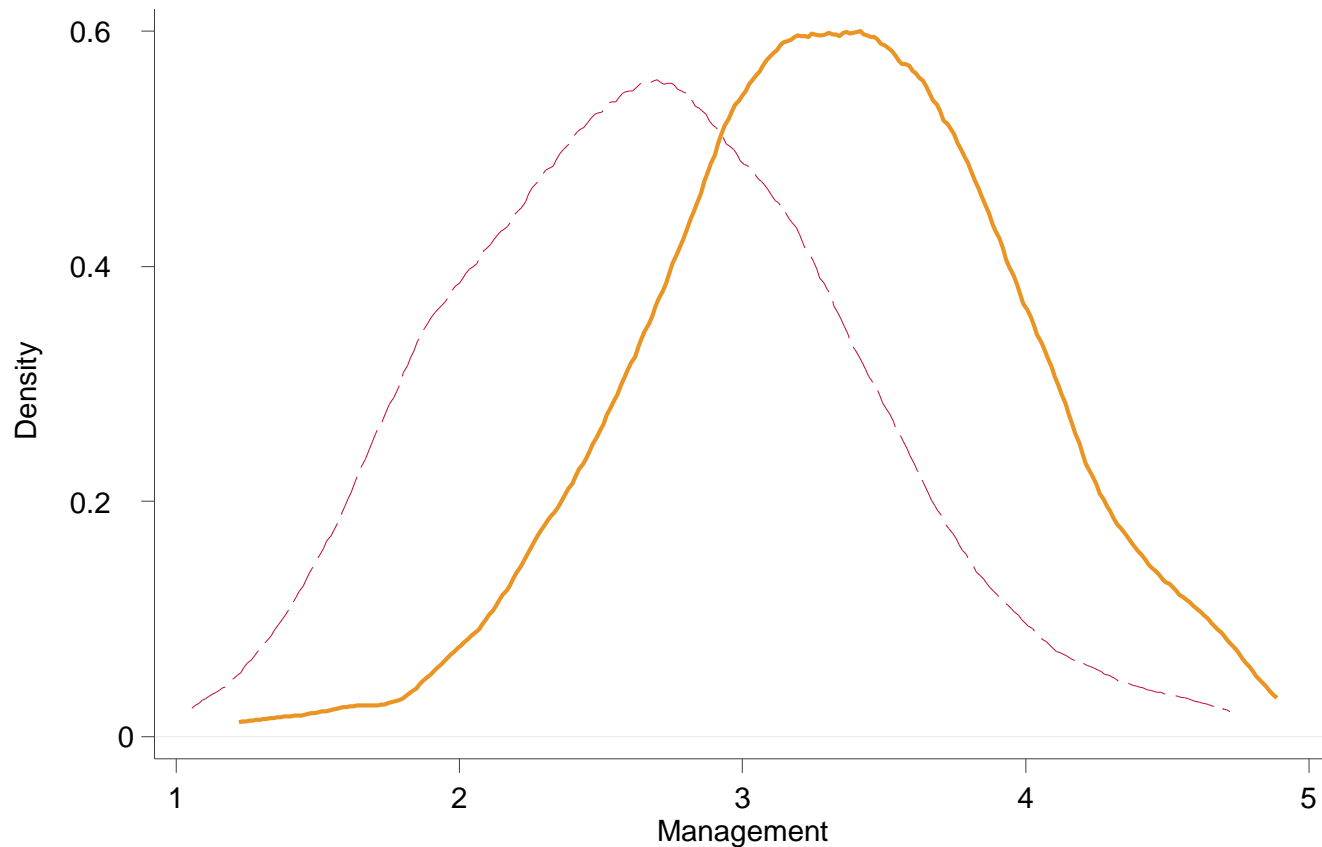


Growth issue #1: firm dynamics – a growth stunting problem in formal firms explains the smallness syndrome



Growth issue #1: firm dynamics – innovation and growth deficit affects the entire spectrum of firms in LAC

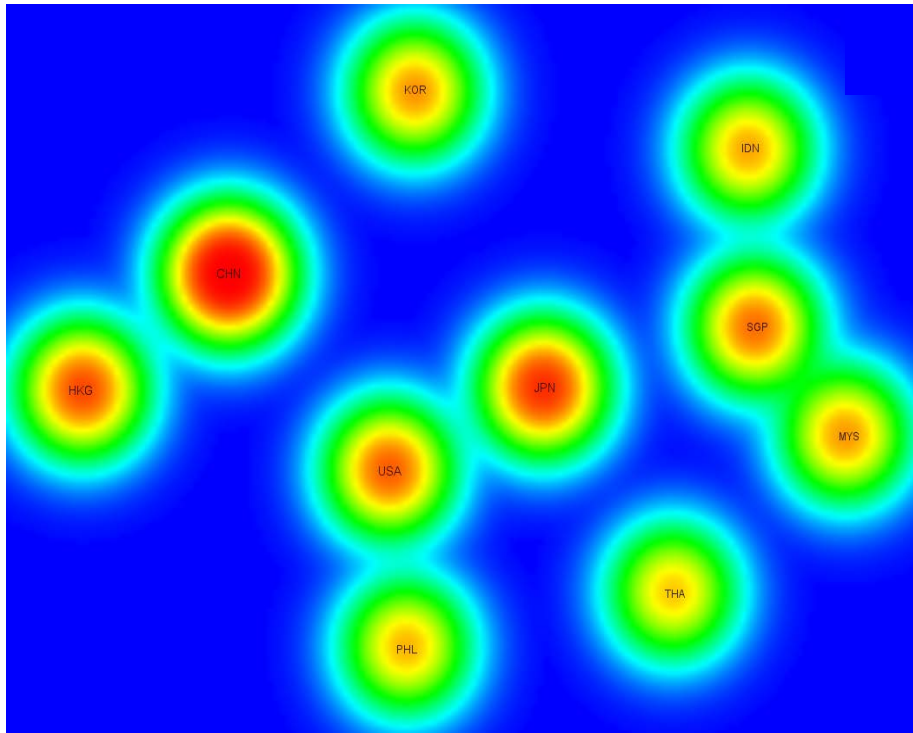
Management Scores in Brazil and USA, circa 2010



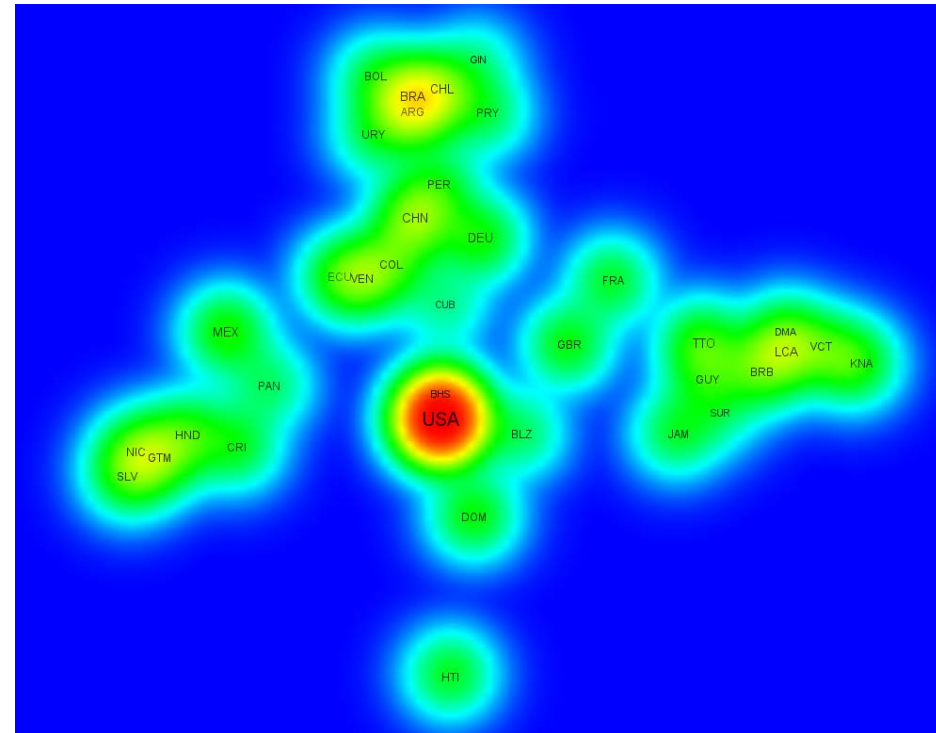
Growth issue #2: low quality of trade connections, which in part reflect a weak integration into GVCs

Density Maps of Region-Centered Trade Networks, 2011

East Asia



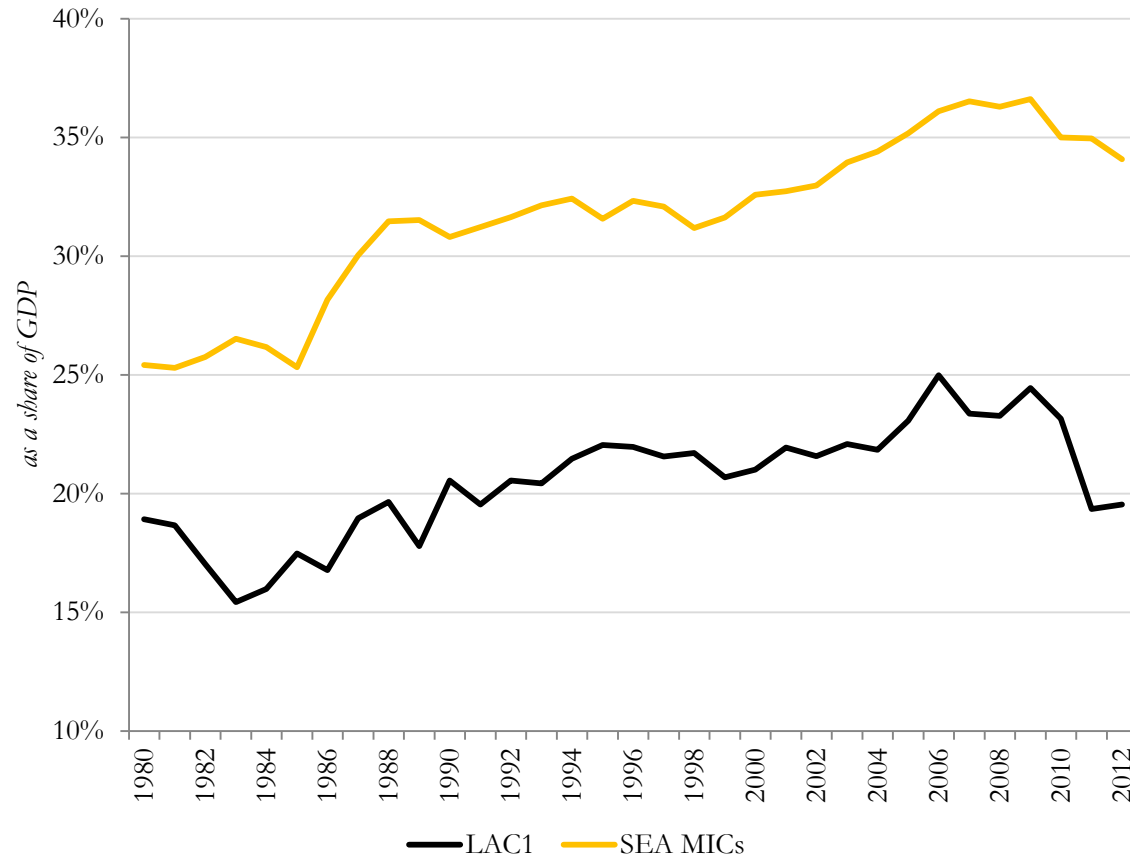
LAC



Notes: The directed links correspond to exports from one country to another as a percentage of the source country's total exports. Source: LCRCE's Flagship (2014) based on IMF's DOTS.

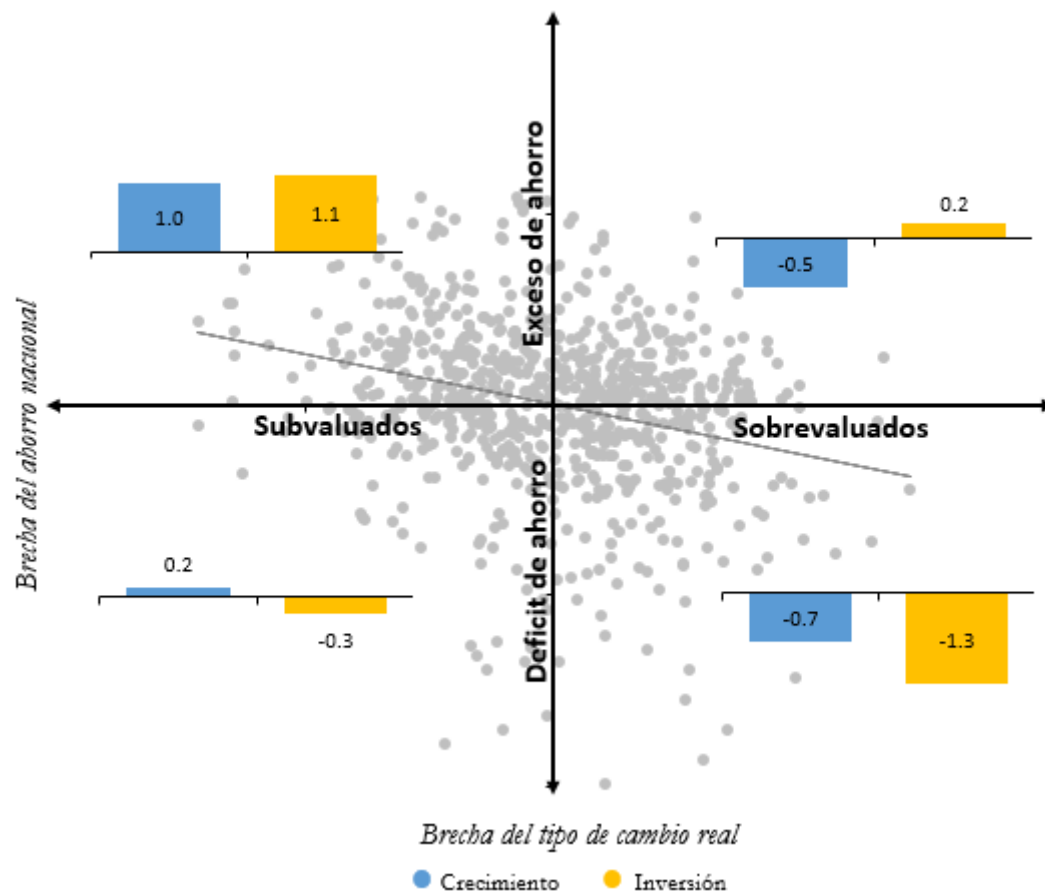
Growth issue #3: LAC is a saving-constrained region

Saving Rates: LAC and the East Asian MICs



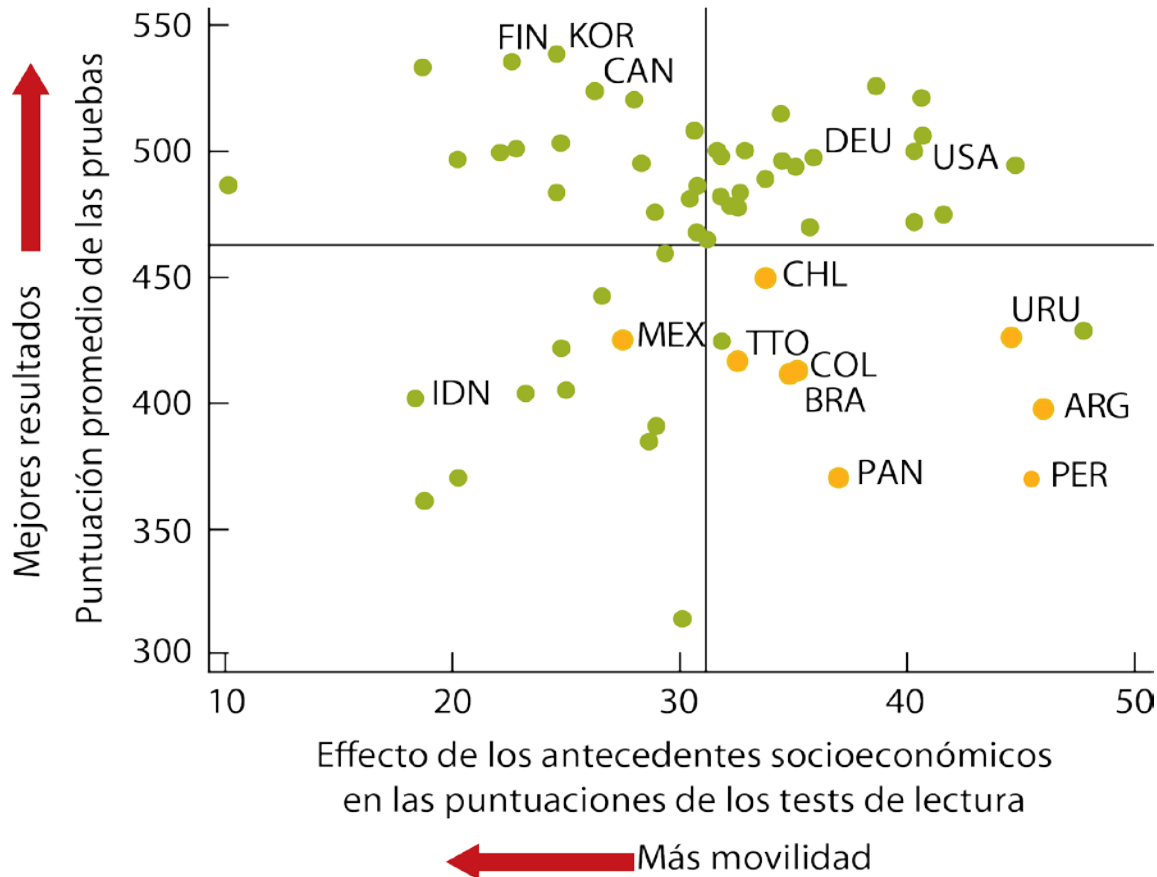
Growth issue #3: low saving leads to low investment and low growth

Brechas del ahorro, tipo de cambio, crecimiento e inversión
1990–2012



Growth with equity issue #4: poor quality public education has *long-term* and persistent un-equalizing effects

Student Performance in PISA Tests and Inter-Generational Mobility, 2009



Thank you!

A new Latin America in a new global landscape for the *real economy*, where the South is no longer in the periphery...

