The Emergence of Latin America: A Break with History?

Mauricio Cárdenas, Brookings Institution

Brookings Mountain West
University of Nevada, Las Vegas
March 1, 2011
“It is impossible to understand Latin America without leaving it and observing it from afar with your own eyes, noting at the same time the myths and stereotypes that have been constructed abroad.”

Mario Vargas-Llosa

*The Paradoxes of Latin America.*
Latin America: Facts and myths

- Latin America is no longer the stereotype of populism and economic mismanagement, but it would be misleading to derive from the recent progress some form of complacency.

- There are important ideological and economic differences within the region, so generalizations tend to be misleading.

- In this lecture I would like to debunk some myths, while re-stating some unpleasant facts that remain part of Latin America’s reality.
Latin America is economically relevant: Similar to China in GDP with a smaller population (for 2009)

Source: World Bank, World Development Indicators (2009)
US Crude Oil Imports 2010

Source: US Energy Information Administration, February 25, 2011

LAC: 33%
CANADA: 23%
SAUDI ARABIA: 13%
NIGERIA: 12%
IRAQ: 5%
ANGOLA: 4%
ALGERIA: 4%
RUSSIA: 3%
KUWAIT: 2%
UNITED KINGDOM: 1%

<table>
<thead>
<tr>
<th>Country</th>
<th>Total 2010 Exports (in billions of USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>248.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>163.3</td>
</tr>
<tr>
<td>China</td>
<td>91.9</td>
</tr>
<tr>
<td>Japan</td>
<td>60.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>48.5</td>
</tr>
<tr>
<td>Germany</td>
<td>48.2</td>
</tr>
<tr>
<td>Korea, South</td>
<td>38.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>35.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>34.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>29.1</td>
</tr>
<tr>
<td>France</td>
<td>27.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>26.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>26.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>25.5</td>
</tr>
<tr>
<td>Australia</td>
<td>21.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20.6</td>
</tr>
<tr>
<td>India</td>
<td>19.2</td>
</tr>
<tr>
<td>Italy</td>
<td>14.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13.9</td>
</tr>
<tr>
<td>Colombia</td>
<td>12.0</td>
</tr>
</tbody>
</table>
Seven countries in the region account for more than 80% of the population and GDP.

Source: World Bank, World Development Indicators (2009)
Latin America is now performing much better than the developed countries

Trend GDP growth in LAC and High Income Countries
Stock Market Indexes, Jan 2007 = 100

Latin America
High Income
Hyperinflations are long gone

Source: International Monetary Fund, World Economic Outlook; Central Bank bulletins and Economist Intelligence Unit.
As well as Fiscal Populism

**Fiscal Balance**

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>-10</td>
<td>-1</td>
</tr>
<tr>
<td>Euro</td>
<td>-7</td>
<td>-1</td>
</tr>
<tr>
<td>Japan</td>
<td>-9</td>
<td>-3</td>
</tr>
<tr>
<td>UK</td>
<td>-14</td>
<td>-3</td>
</tr>
<tr>
<td>OECD</td>
<td>-9</td>
<td>-1</td>
</tr>
<tr>
<td>LAC-7</td>
<td>2</td>
<td>-2</td>
</tr>
</tbody>
</table>

**Gross Nominal Liabilities**

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>63</td>
<td>98</td>
</tr>
<tr>
<td>Euro</td>
<td>71</td>
<td>89</td>
</tr>
<tr>
<td>Japan</td>
<td>167</td>
<td>200</td>
</tr>
<tr>
<td>UK</td>
<td>47</td>
<td>89</td>
</tr>
<tr>
<td>OECD</td>
<td>74</td>
<td>100</td>
</tr>
<tr>
<td>LAC-7</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit (EIU) and Consensus Forecast (Sep. 2009)
Disappointing long-term track record

GDP Per Capita of Selected Regions / US GDP per Capita

Source: Maddison (2009).
And much of it has to do with Total Factor Productivity

Growth decomposition 2000-2007

LAC Is, However, More Dependent on Commodities, Especially Fiscally

primary sector as a share of GDP (%)  
16.3  
commodity exports as a share of total exports (%)  
66.8

Herfindahl-Hirschman Concentration Index, commodity exports  
0.08  
commodity exports as a share of GDP (%)  
15.6  
16.5

commodity revenues as a share of total fiscal revenues (%)  
23.8  
4.7  
9.4

Sources: World Bank World Development Indicators, UN Commodity Trade Statistics Database, national authorities, IMF, and World Bank staff calculations.

Note: For the fiscal variables, the groups use the hydrocarbon and mineral producers only, because revenue from production of other commodities is typically not reported separately from other revenue sources. Thus the countries for each group were Bolivia, Chile, Colombia, Ecuador, Peru, Trinidad and Tobago, and República Bolivariana de Venezuela for LAC, and Canada and Norway for the high-income category. For the remaining variables, we used the LAC-7 countries plus Bolivia, Ecuador, and Trinidad and Tobago for LAC, and Australia, Canada, Norway, and New Zealand for the high-income category. These were the countries in each group that ranked in the top 50 among worldwide commodity exporters (as a share of their total exports) and had a population of more than half a million people.
FIGURE 2.5
The Decline in the Share of Commodity Exports Has Been Lower for LAC, the Middle East, and Africa

Sources: UN Commodity Trade Statistics Database and World Bank staff calculations.
The good fortune of high commodity process

Commodity Prices

Oil WTI in Current US$, Wheat, Copper and Soybean: Index 01-Jan-05=100
Democratic consolidation


Polity2 measure: Democracy – Autocracy (-10,+10)
Average number of coups per country in LAC countries

Income inequality, 2004*

Gini coefficient: 0 = complete equality, 1 = complete inequality

- < 0.25
- 0.25 - 0.29
- 0.30 - 0.34
- 0.35 - 0.39
- 0.40 - 0.44
- 0.45 - 0.49
- 0.50 - 0.54
- 0.55 - 0.59
- > 0.60
- No data

Source: UNDP Human Development Report 2007/08
*Or latest year available
Murder Rate per 100,000 people

Some progress in the reduction of inequality

Source: Gasparini et al. (2009) based on SEDLAC.
Annual Percentage Change in Gini Coefficient

- Ecuador: -3.1
- Paraguay: -1.4
- Brazil: -1.1
- Bolivia: -1.0
- Chile: -1.0
- Dominican Rep.: -0.9
- Mexico: -0.9
- Peru: -0.7
- El Salvador: -0.6
- Argentina: -0.2
- Panama: 0.1
- Venezuela: 0.9
- Guatemala: 1.0
- Uruguay: 1.0
- Costa Rica: 2.2
- Honduras: -1.1
- Nicaragua: -0.5
- Total 12 countries: -4.0
- Total 17 countries: 21
A new middle class is emerging

Brazil Economic Classes Share (August 2008 - December 2009; 2014 forecast)

- Class AB (more than R 4807)
- Class C (R 1115-4807)
- Class D (804-1115)
- Class E (R 0-804)
Household per capita income and its determinants

Per capita household income

Proportion of adults in the household
- FERTILITY

Household income per adult

Household non-labor income per adult
- RENTS & PROFITS
- REMITTANCES
- GOV. TRANSFFERS

Proportion of working adults
- PARTICIPATION IN LABOR FORCE
- EMPLOYMENT OPPORT

Labor income per working adult in the household
- WAGES BY SKILL/OTHER
- HOURS WORKED
Composition of adult population by education level

Argentina (urban areas): 1986 – 2006

Brazil: 1986 - 2007


But a very large gap remains in the quality of education.
Private vs. public education: Performance and socioeconomic status

A way to measure progress towards development

Variables used in the rankings:

- Real GDP growth
- Inflation, average CPI (%)
- Cyclically adjusted fiscal balance (%GDP)
- Net external debt (%GDP)
- Net external financing needs/CAR (%)
- Public sector external debt (%GDP)
- Emerging market bond spreads (bp)
- Gini coefficient (%)
- Human development index
- Composite world governance indicator

Policy Track Record

Stable Growth

Financial vulnerabilities

Development factors
Notes: Risk adjusted GDP is constructed as the mean of the real GDP growth (1999-2009)/standard deviation real GDP growth (1999-2009); Risk adjusted CPI is constructed as the mean of the CPI inflation rate (1999-2009)/standard deviation of the CPI inflation rate (1999-2009)

Source: The Economist Intelligence Unit and IMF World Economic Outlook Data Base, April 2010.
Graduation scorecard: the hard sciences

Notes: Cyclically adjusted fiscal balance estimated as the intercept from a regression of the primary surplus on cyclical output, where the latter is obtained from the log-linear de-trending of real GDP. The Economist Intelligence Unit and Kaufmann, Kraay and Mastruzzi (2009). Governance Matters VIII
Graduation scorecard: Final report

Bottom-line

- Macro **policy framework** is exemplary.
- But difficult to get GDP growth above 5 percent without generating inflationary pressures. **Low potential growth.**
- Effects of new **dependency from China** are not fully clear.
- **Central America** has very different challenges compared to South America.
- The positive trends suggest that this can become Latin America’s decade.