The Emergence of Latin America: A Break with History?

Mauricio Cárdenas, *Brookings Institution*

Brookings Mountain West
University of Nevada, Las Vegas
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“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 about it 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)
Source: US Energy Information Administration, February 25, 2011
<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>
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<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>
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<tr>
<td>Singapore</td>
<td>29.1</td>
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<tr>
<td>France</td>
<td>27.0</td>
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<tr>
<td>Hong Kong</td>
<td>26.5</td>
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<td>Taiwan</td>
<td>26.0</td>
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<tr>
<td>Belgium</td>
<td>25.5</td>
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<tr>
<td>Australia</td>
<td>21.8</td>
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<tr>
<td>Switzerland</td>
<td>20.6</td>
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<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>
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</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.
Hyperinflations are long gone

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

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2010</th>
<th>US</th>
<th>Euro</th>
<th>Japan</th>
<th>UK</th>
<th>OECD</th>
<th>LAC-7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Balance</td>
<td>% of GDP</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>2007</td>
<td>-10</td>
<td>-1</td>
<td>-7</td>
<td>-9</td>
<td>-14</td>
<td>-1</td>
<td>-2</td>
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</tr>
<tr>
<td>2010</td>
<td>-1</td>
<td>-3</td>
<td>-9</td>
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<tr>
<td>Gross Nominal Liabilities</td>
<td>% of GDP</td>
<td></td>
<td></td>
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<tr>
<td>2007</td>
<td>63</td>
<td>98</td>
<td>89</td>
<td>89</td>
<td>47</td>
<td>74</td>
<td>33</td>
<td>33</td>
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<tr>
<td>2010</td>
<td>71</td>
<td>89</td>
<td>167</td>
<td>100</td>
<td>74</td>
<td>100</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

FIGURE 2.3
LAC Is, However, More Dependent on Commodities, Especially Fiscally

Herfindahl-Hirschman Concentration Index, commodity exports

Primary sector as a share of GDP (%) 16.3
Commodity exports as a share of total exports (%) 66.8

Commodity exports as a share of GDP (%) 61.6
Commodity revenues as a share of total fiscal revenues (%) 15.6

Commodity revenues as a share of GDP (%) 16.5

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

Sub-Saharan Africa

Asia (non-Middle East)

LAC

OECD

Income inequality, 2004
Gini coefficient: 0 = complete equality, 1 = complete inequality

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


Latin America Initiative
at BROOKINGS
Some progress in the reduction of inequality

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

Household labor income per adult

- 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

Source: Mathematics score from Pisa (2006). Expenditure per Student, primary (% GDP) is the most recent data available in WDI (2004 for most of the countries). Public expenditure per student is the public current spending on education divided by the total number of students in the primary level.
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

Cyclically adjusted fiscal balance (%GDP)

World Governance Indicators

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

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.