

Economic Growth in Latin America: The Recent Experience

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Outline

1. Growth Performance
2. Openness, Regional Trade and Institutions
3. Inequality, Distortions and Growth
4. Recent Developments: Is it only Terms of Trade?
5. Concluding Remarks

1. Growth Performance

Latin America's growth in per capita GDP (%)

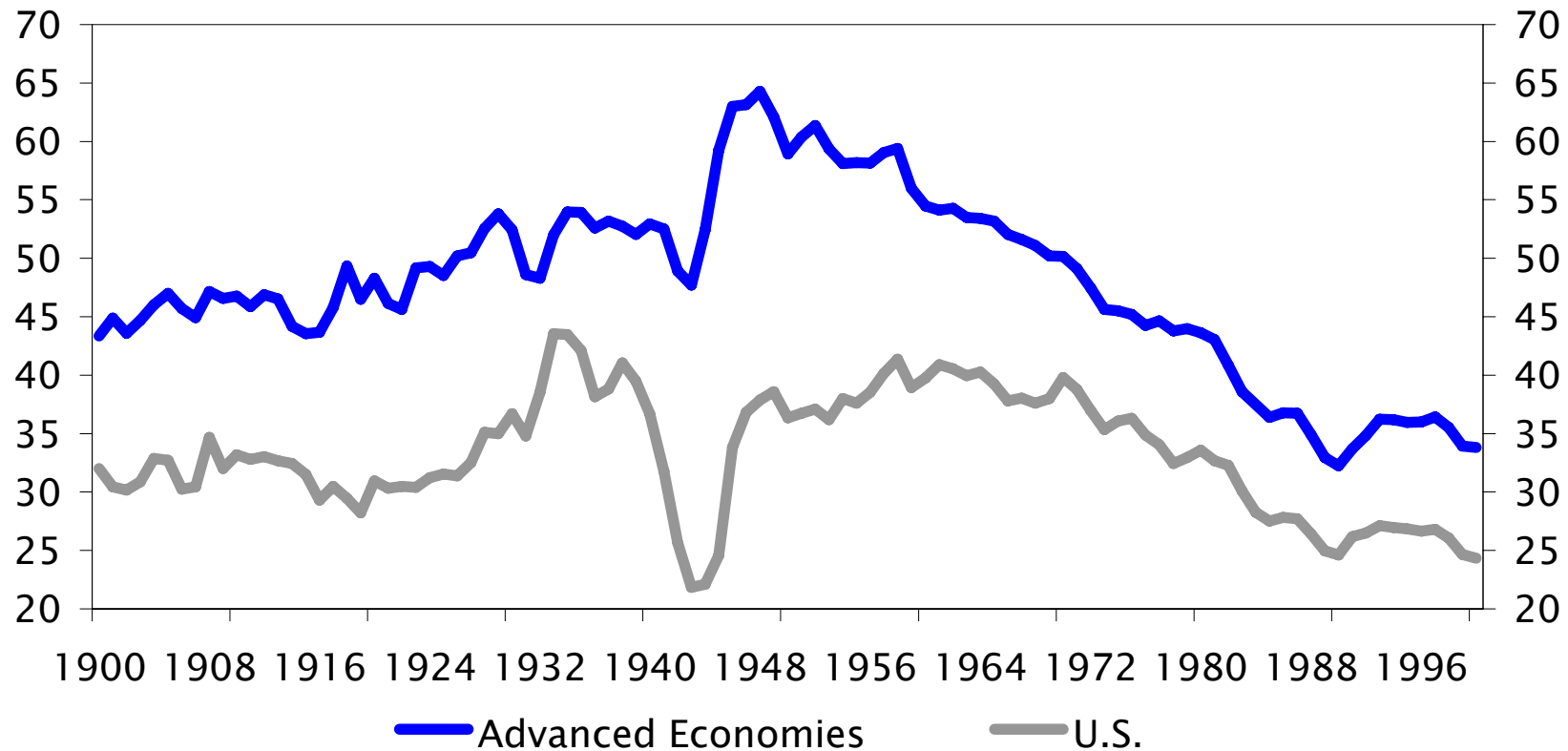
	1960-69	1970-79	1980-89	1990-99	2000-06	1960-2006
Argentina	3.1	1.1	-2.3	3.3	1.6	1.3
Brazil	4.0	5.5	1.5	-0.4	1.5	2.5
Chile	2.8	0.8	1.2	4.8	2.9	2.4
Colombia	1.9	3.5	1.2	1.3	1.8	2.0
Costa Rica	2.3	2.8	-1.1	2.8	2.2	1.8
Ecuador	1.3	6.7	-0.9	-0.2	1.3	1.7
Guatemala	2.3	2.5	-1.3	1.0	0.3	1.0
Mexico	3.5	3.3	-0.2	1.5	1.7	2.0
Peru	4.3	1.0	-2.0	1.1	2.8	1.4
Uruguay	0.4	3.0	0.0	3.3	1.6	1.7
Venezuela	1.4	2.4	-2.5	0.0	2.3	0.6
Average	2.5	3.0	-0.6	1.7	1.8	1.7
REFERENCE						
Japan	10.0	4.1	3.1	1.3	1.3	4.1
USA	3.2	2.4	2.1	2.2	1.8	2.4
East Asia (9)	4.9	5.9	4.7	4.3	3.8	4.8
World	3.1	3.0	1.0	1.3	2.8	2.2

Fuente: Heston, Summers and Aten, Penn World Table Version 6.2, University of Pennsylvania (2006), for data 1960- 2004.
WEO, april 2007 for data 2005-2006

1. Growth Performance

Figure 1 (a): Latin America Relative Per Capita GDP (%)

Simple Average



1. Growth Performance

LAC's GDP per capita as a Ratio of US per capita GDP

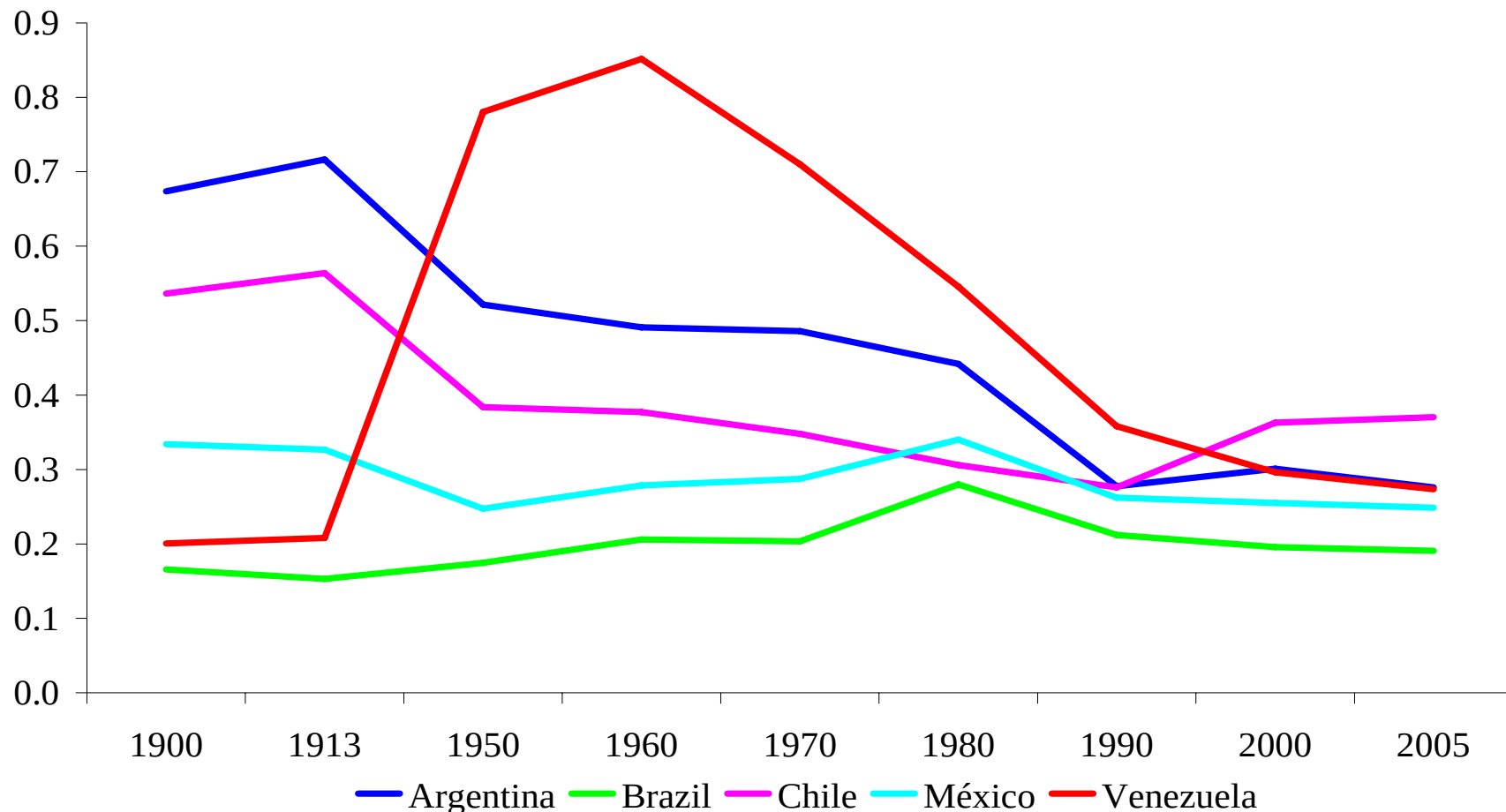
	1900	1913	1950	1960	1970	1980	1990	2000	2005
Argentina	0.67	0.72	0.52	0.49	0.49	0.44	0.28	0.30	0.28
Brazil	0.17	0.15	0.17	0.21	0.20	0.28	0.21	0.20	0.19
Chile	0.54	0.56	0.38	0.38	0.35	0.31	0.28	0.36	0.37
Colombia	0.24	0.23	0.23	0.22	0.21	0.23	0.21	0.18	0.19
Costa Rica	n.a.	n.a.	0.21	0.24	0.25	0.26	0.20	0.22	0.23
Ecuador	n.a.	n.a.	0.19	0.20	0.19	0.22	0.17	0.11	0.15
Guatemala	n.a.	n.a.	0.22	0.20	0.21	0.24	0.16	0.14	0.15
Mexico	0.33	0.33	0.25	0.28	0.29	0.34	0.26	0.26	0.25
Peru	0.17	0.19	0.24	0.26	0.26	0.23	0.13	0.13	0.14
Uruguay	0.54	0.62	0.49	0.44	0.34	0.35	0.28	0.28	0.26
Venezuela	0.20	0.21	0.78	0.85	0.71	0.55	0.36	0.30	0.27
<i>Average (11)</i>	<i>0.36</i>	<i>0.38</i>	<i>0.33</i>	<i>0.34</i>	<i>0.32</i>	<i>0.31</i>	<i>0.23</i>	<i>0.23</i>	<i>0.22</i>
<i>Latin America</i>	<i>0.36</i>	<i>0.38</i>	<i>0.31</i>	<i>0.31</i>	<i>0.29</i>	<i>0.29</i>	<i>0.21</i>	<i>0.21</i>	<i>0.20</i>
<i>East Asian Countries (16)</i>	<i>0.15</i>	<i>0.13</i>	<i>0.07</i>	<i>0.08</i>	<i>0.09</i>	<i>0.10</i>	<i>0.12</i>	<i>0.13</i>	<i>0.37</i>
<i>East Asia (4)</i>	<i>n.a.</i>	<i>0.20</i>	<i>0.16</i>	<i>0.18</i>	<i>0.25</i>	<i>0.40</i>	<i>0.54</i>	<i>0.68</i>	<i>0.71</i>

East Asia (4) includes the four original asian tigers. Taiwan, Hong Kong, Singapore and South Korea

Source: Maddison (Ene-2007) for data 1900 - 2003; University of Groningen (2007) for 2005

1. Growth Performance

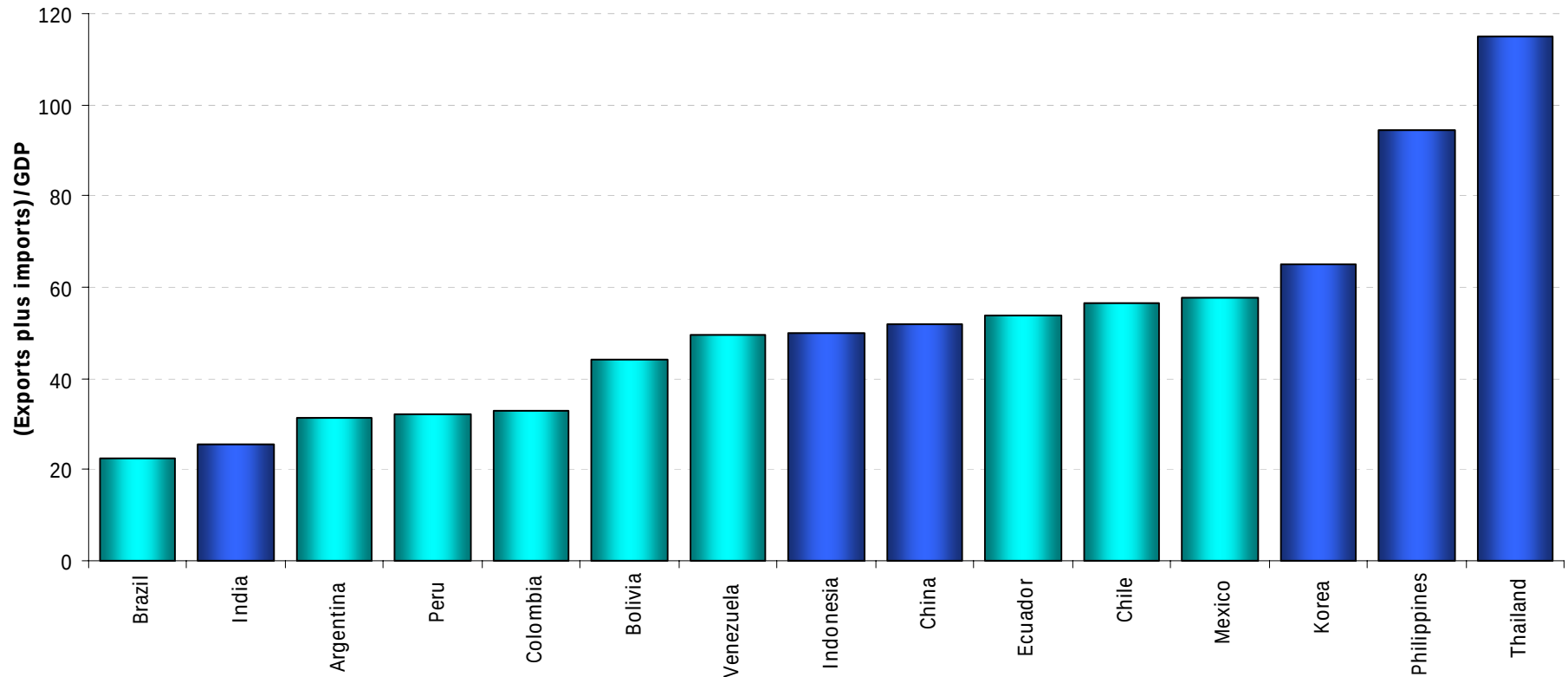
LAC's GDP per capita
(as a ratio of US per capita GDP)



Source: Maddison (2007) for data 1900-2000; University of Groningen (2007) for 2005

2. Openness

Trade as a Percentage of GDP (2000 - 2006)



Note: for scale reasons Malaysia, Hong Kong and Singapore are excluded from graph.
Source: Direction of Trade Statistics. IMF. WEO.

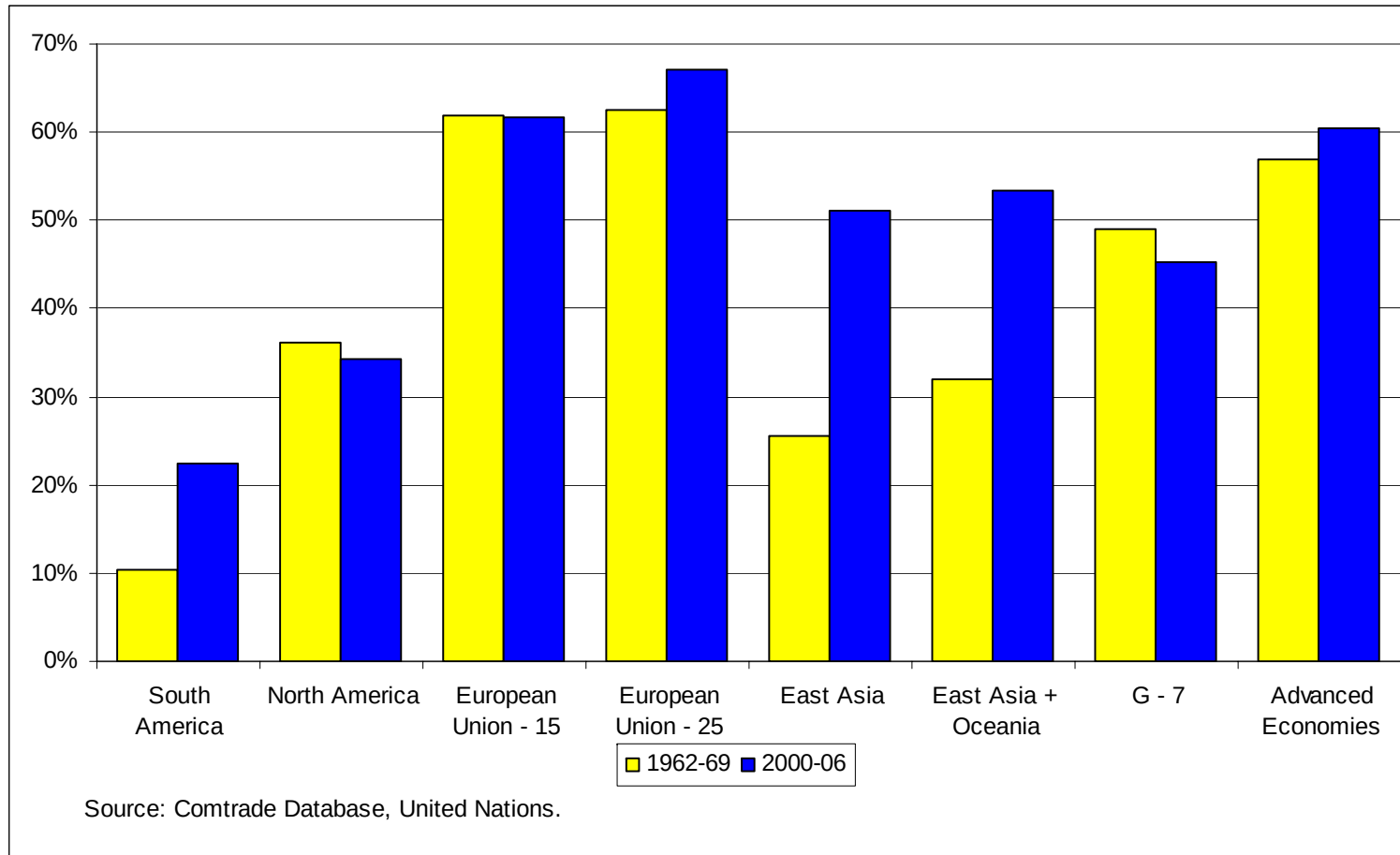
2. Trade Liberalization

Country	Periods of Temporary Liberalization (if applicable)	Trade liberalization year	Avg. Tariff (%) 1990-99	Core Non-tariff barriers (%) 1995-98 (avg)
Argentina		1991	12.5	2.1
Brazil		1991	17.3	21.6
Chile		1976	11.3	5.2
Colombia		1986	14.3	10.3
Costa Rica	1952-61	1986	10.6	6.2
Ecuador	1950-82	1991	11.3	
Guatemala	1950-61	1988	10.3	
Mexico		1986	12.5	13.4
Peru	1948-67	1991	16.8	
Uruguay		1990	14.0	0
Venezuela	1950-59; 89-93	1996	14.3	17.7

Source: Wacziarg and Welch (2003)

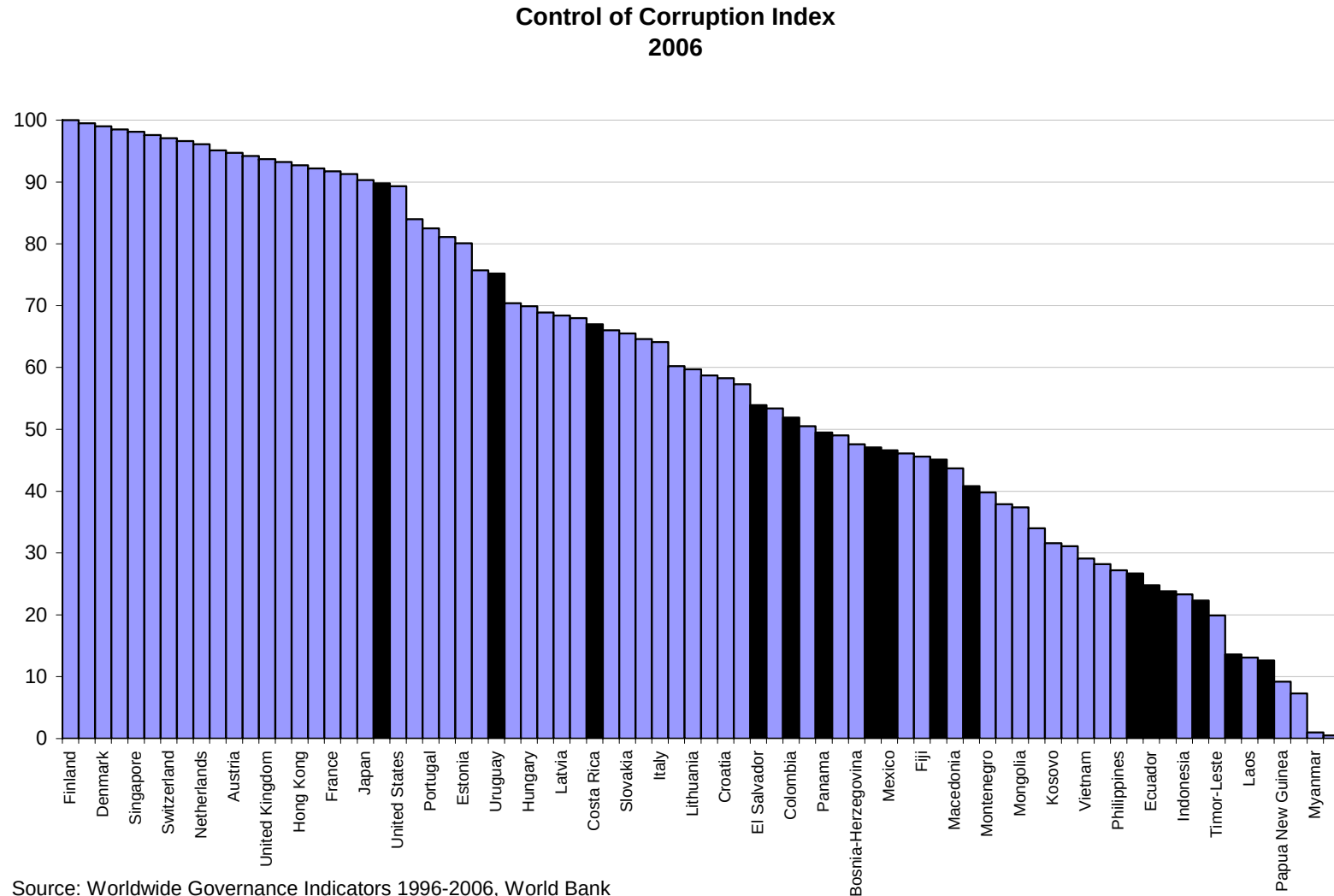
- Latin America has made progress, mostly during the late 80s and the 90s, in terms of trade liberalization.

2. Intraregional Trade



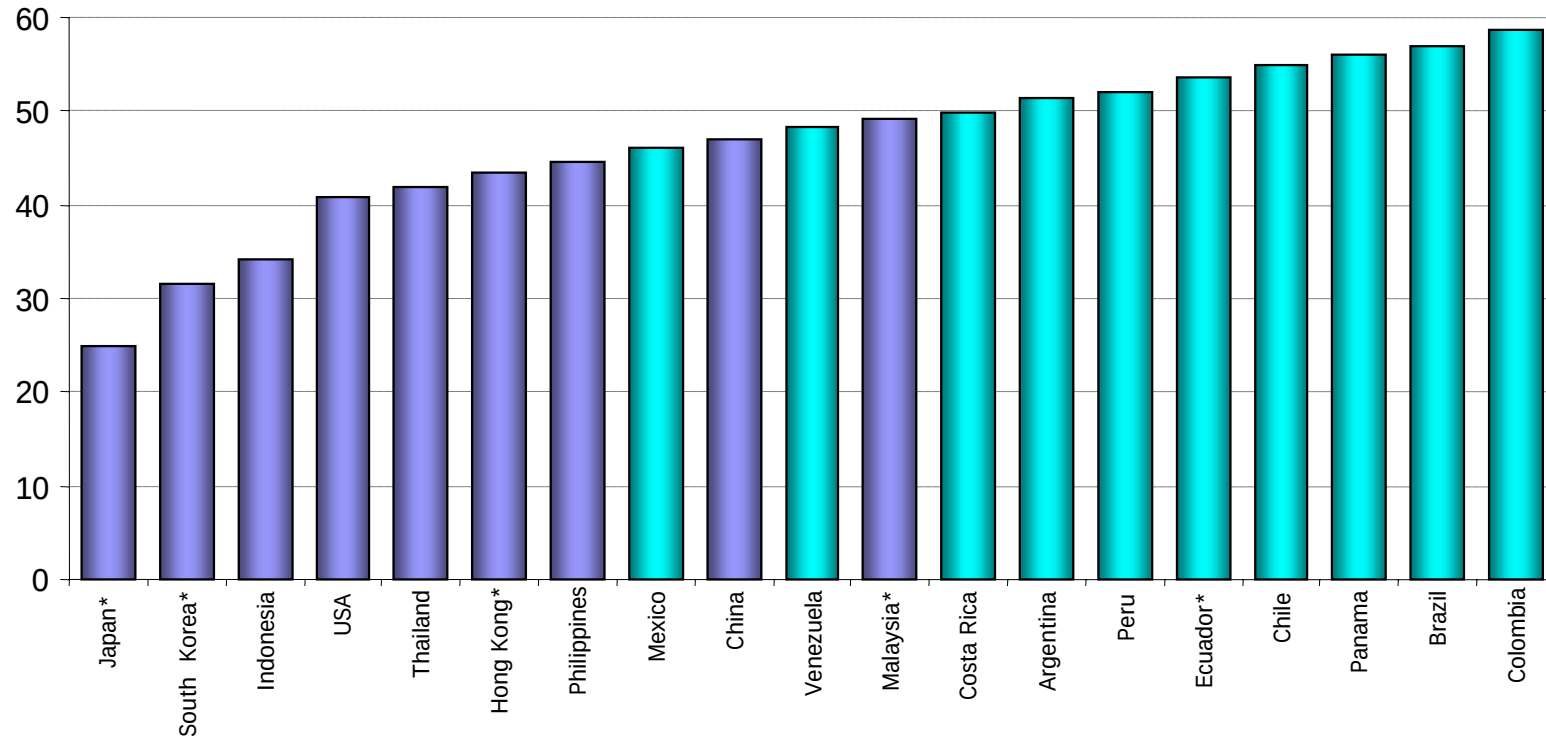
- But, intraregional trade is still low.

2. Institutions



3. Inequality, Distortions and Growth

Income Distribution in the 2000's
Gini Coefficient



Note: latest available data. * Latest available data is for the 1990's.
Source: World Development Indicators 2007, World Bank.

- Latin America has high levels of inequality, which harms growth.

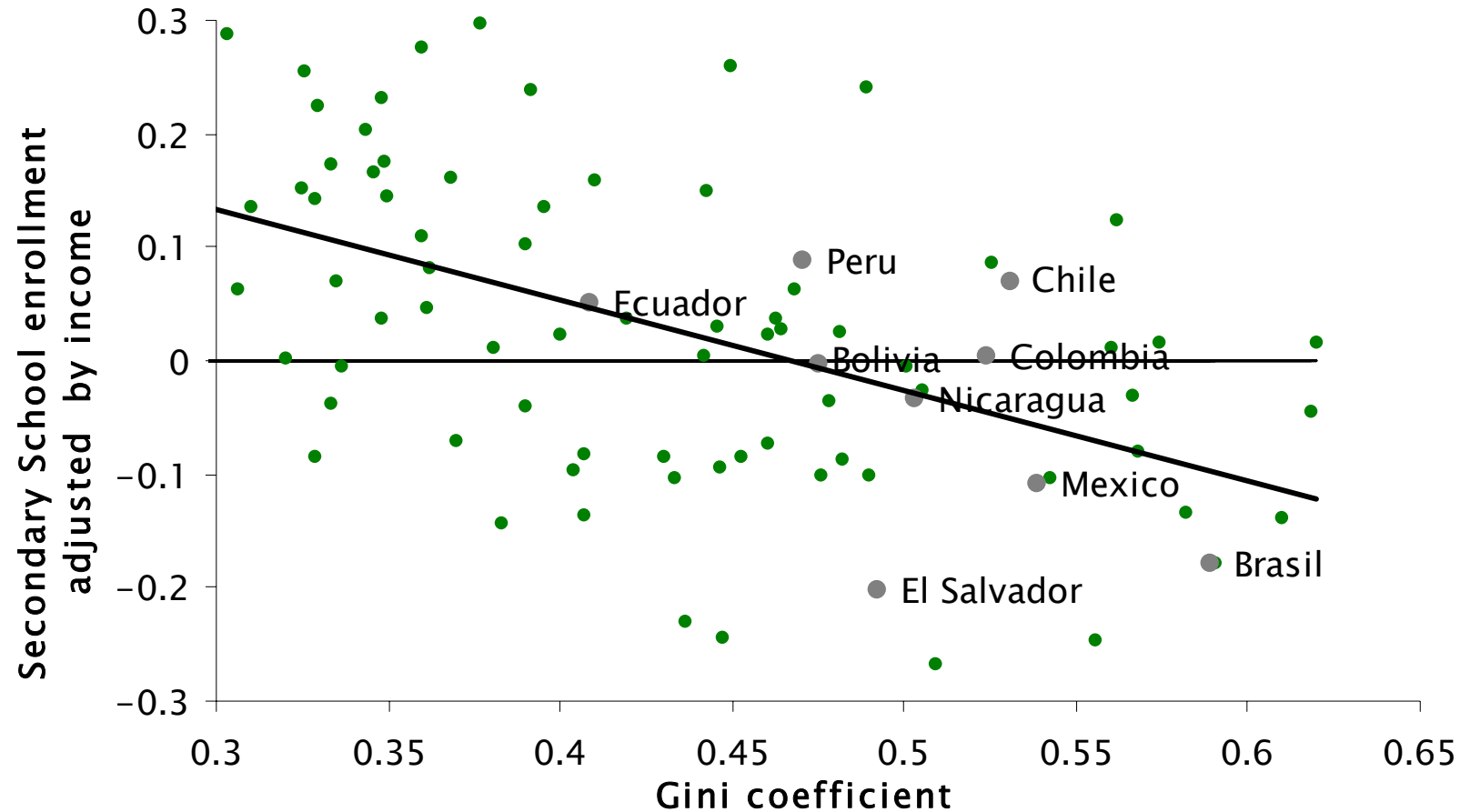
3. Inequality, Distortions and Growth

De Gregorio and Lee (2004)

- Effects of inequality on growth are mostly negative but with some caveats (not significant in our regression, see below).
- But, inequality has negative effects on economic growth by introducing distortions and bad policies:

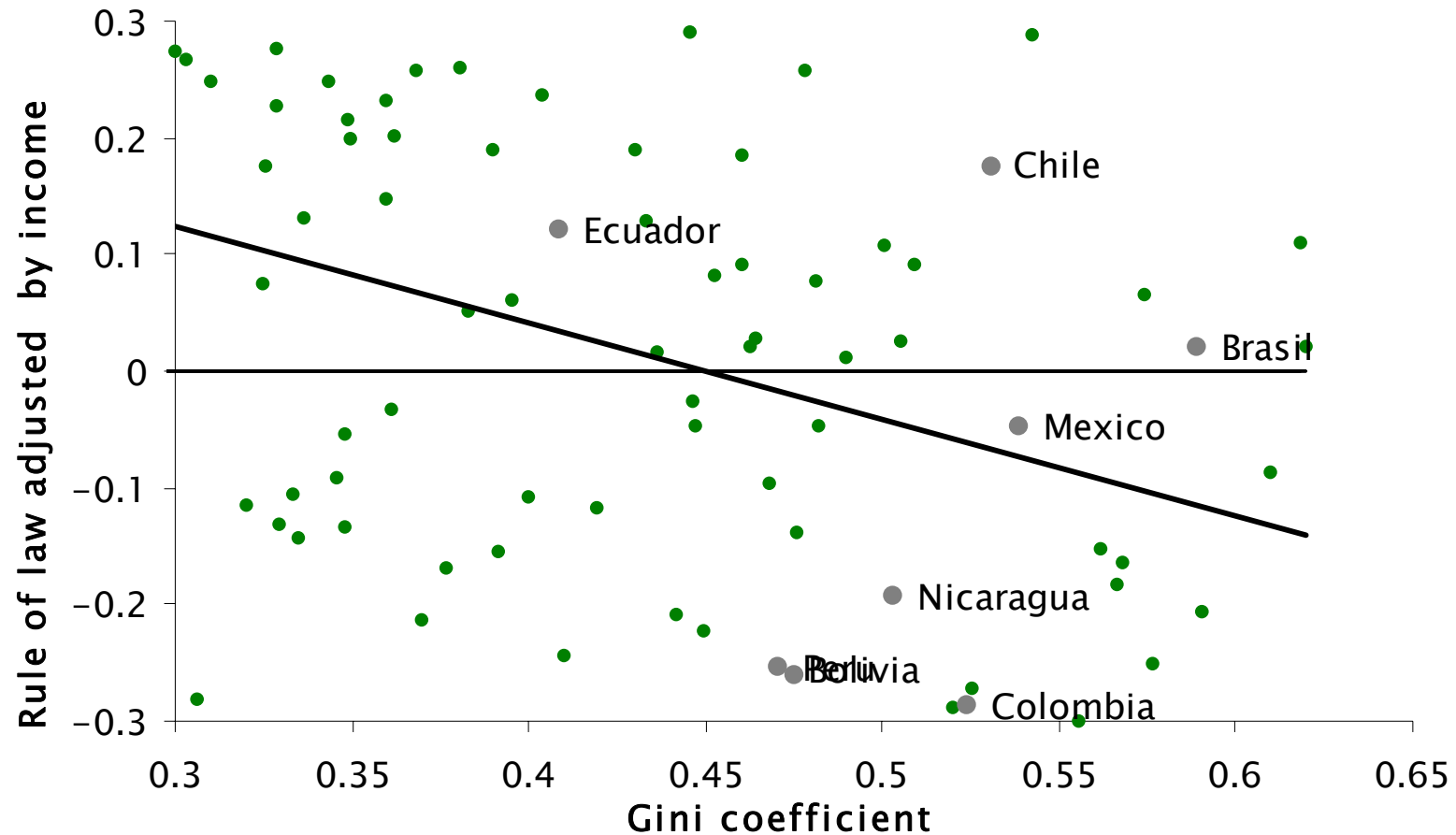
	Dependent variable	Gini index
(1)	Growth rate regression	-0.001 (0.018)
(2)	Fertility (log)	1.335 (0.146)
(3)	Government consumption/GDP	0.143 (0.036)
(4)	Secondary school enrollment	-0.800 (0.098)
(5)	Rule-of-law index	-0.869 (0.126)

3. Inequality, Distortions and Growth



Source: De Gregorio and Lee (2004).

3. Inequality, Distortions and Growth



Source: De Gregorio and Lee (2004).

4. Recent Developments

	GDP Growth (%)				Inflation (%)				Current Account			
	1993-2002	2002-2006(p)	2006(p)	2007(f)	1993-2002	2002-2006(p)	2006(p)	2007(f)	1993-2002	2002-2006(p)	2006(p)	2007(f)
World	3.5	4.5	5.4	4.9	11.3	3.6	3.8	3.5				
Argentina	0.7	4.9	8.5	7.5	5.0	12.8	10.9	10.3	-2.1	4.3	2.4	1.2
Brazil	2.9	3.2	3.7	4.4	412.3	8.2	4.2	3.5	-2.7	0.8	1.3	0.8
Chile	5.0	4.4	4.0	5.2	6.4	2.6	3.4	2.5	-2.7	0.8	3.8	2.7
Colombia	2.4	4.6	6.8	5.5	15.9	5.7	4.3	4.2	-2.9	-1.5	-2.2	-2.3
Costa Rica	4.5	5.5	7.9	6.0	13.0	11.2	11.5	8.1	-4.3	-5.0	-4.9	-4.8
Ecuador	2.3	4.9	4.2	2.7	38.5	5.7	3.3	2.8	-2.4	0.0	4.5	0.4
Guatemala	3.7	3.0	4.6	4.5	8.8	7.4	6.6	6.2	-5.0	-4.5	-4.4	-4.5
Mexico	2.8	2.8	4.8	3.4	16.0	4.4	3.6	3.9	-3.1	-1.1	-0.2	-1.0
Peru	4.4	5.7	8.0	6.0	12.0	2.0	2.0	1.0	-4.8	0.1	2.6	0.7
Uruguay	0.5	3.3	7.0	5.0	22.9	10.7	6.4	6.0	-1.5	0.1	-2.4	-3.3
Venezuela	0.1	4.4	10.3	6.2	41.9	20.9	13.6	21.6	3.8	13.8	15.0	7.0
Average (11)	2.7	4.2	6.3	5.1	53.9	8.3	6.3	6.4	-2.5	0.7	1.4	-0.3
LA Average	2.9	4.1	5.9	5.0	37.8	7.3	6.2	6.2	-4.1	-0.8	0.0	-1.3

(p) Preliminary; (f) Forecast

Source: World Economic Outlook, April 2007

- Latin America has had very good performance in terms of growth and inflation. The demand for foreign financing has declined.

4. Recent Developments

	General Government: Overall Balance				
	1987-1996	1997-2002	2002-2006	2006	2007(f)
Argentina	-0.7	-2.0	1.0	1.8	0.9
Brazil	-8.6	-4.7	-4.7	-4.3	-4.2
Chile	1.8	-0.3	2.7	8.1	6.0
Colombia	-1.7	-4.7	-3.1	-2.5	-1.6
Costa Rica	n.a.	-3.0	-2.6	-1.1	-2.3
Ecuador (*)	0.6	-1.6	-0.7	-0.4	-0.8
Guatemala (*)	n.a.	-1.8	-1.5	-1.7	-1.6
Mexico (*)	-2.3	-1.3	-1.2	-1.6	-1.3
Peru	-3.2	-2.0	-0.7	1.8	-0.3
Uruguay	-0.9	-4.2	-3.7	-1.4	-1.0
Venezuela	-2.1	-2.3	-1.6	0.6	-2.5
Average	-1.9	-2.5	-1.5	-0.1	-0.8

(f) Forecast

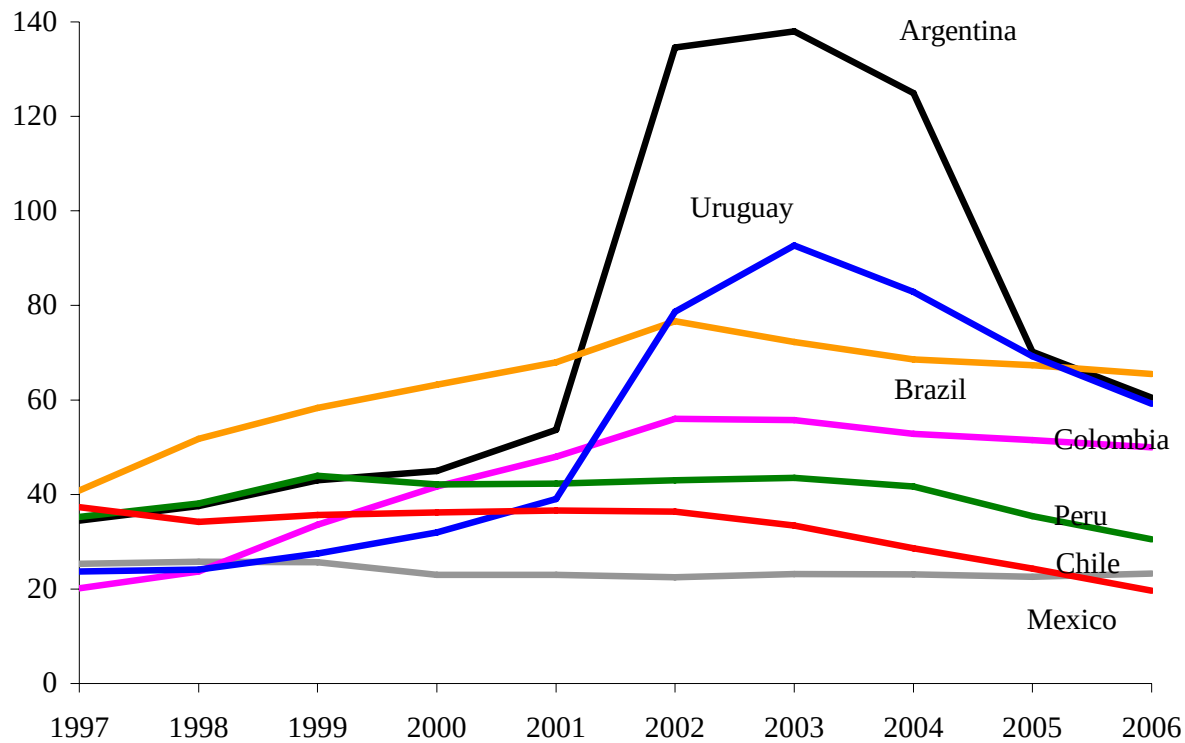
(*) Central government

Source: World Bank for data 1987-96; Moody's for data 1997-2007

- Also progress in public finances.

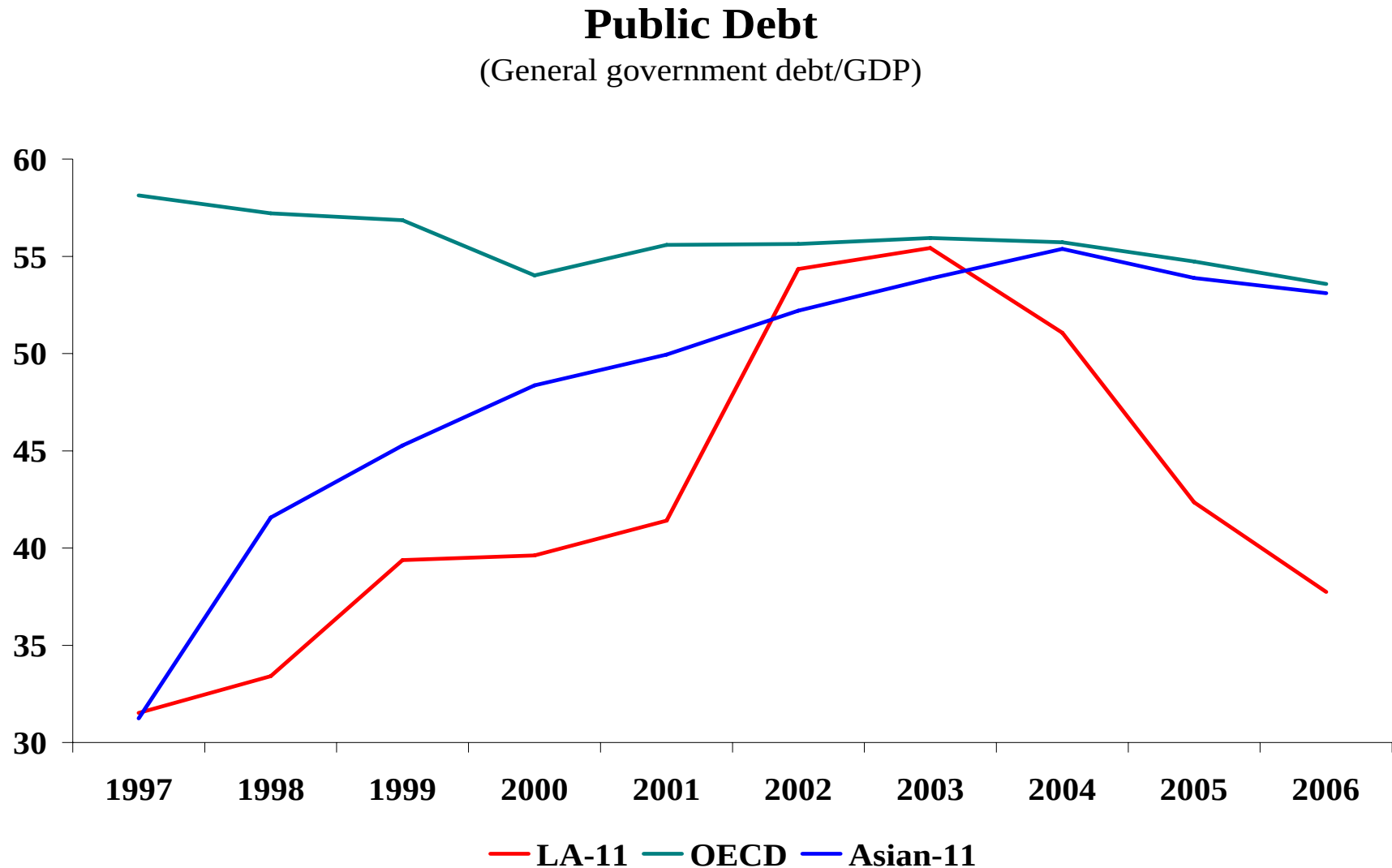
4. Recent Developments

PUBLIC DEBT IN LATIN AMERICA
(General government's debt, % GDP)



Source: Moody's Country Credit Statistical Handbook (2006); Chile's Ministry of Finance (2006).

4. Recent Developments



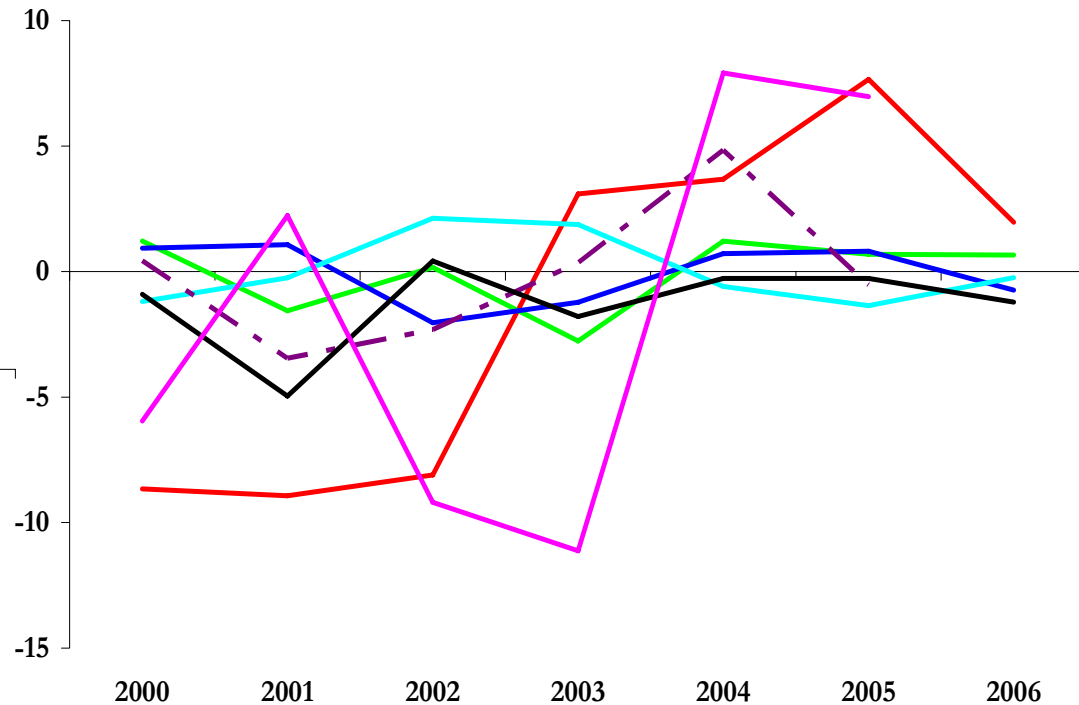
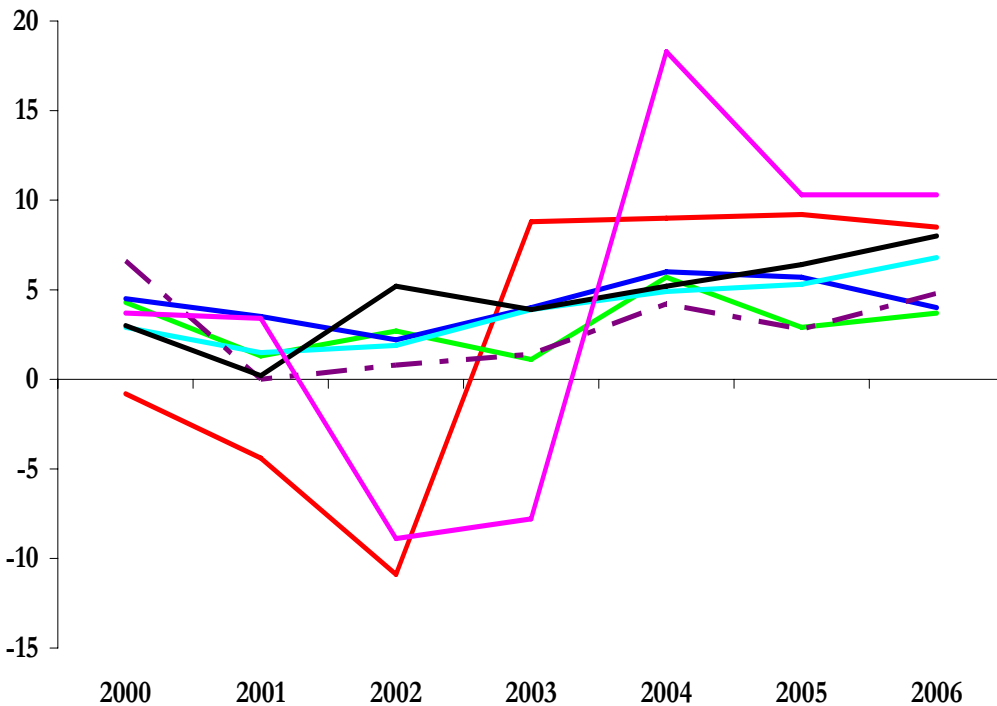
4. Is it only Terms of Trade?

GDP Growth

(%)

Actual data

Unexplained by terms of trade



— Argentina — Brazil — Chile — Colombia - - - Mexico — Peru — Venezuela

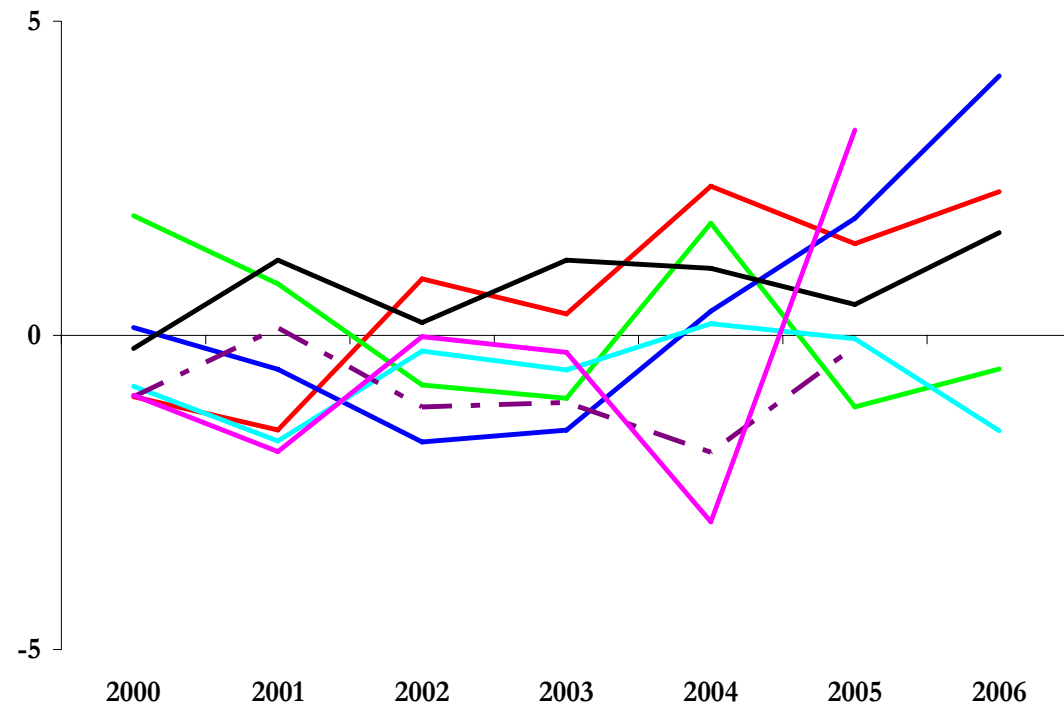
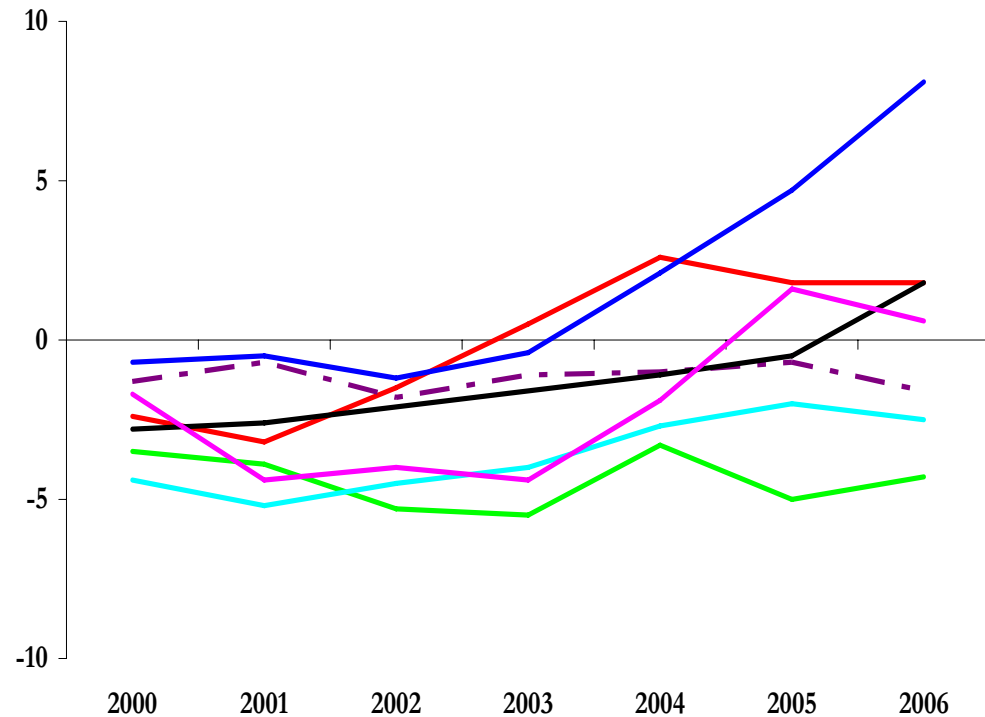
4. Is it only Terms of Trade?

Fiscal Balance

(% of GDP)

Actual data

Unexplained by terms of trade and output gap



— Argentina — Brazil — Chile — Colombia - - - Mexico — Peru — Venezuela

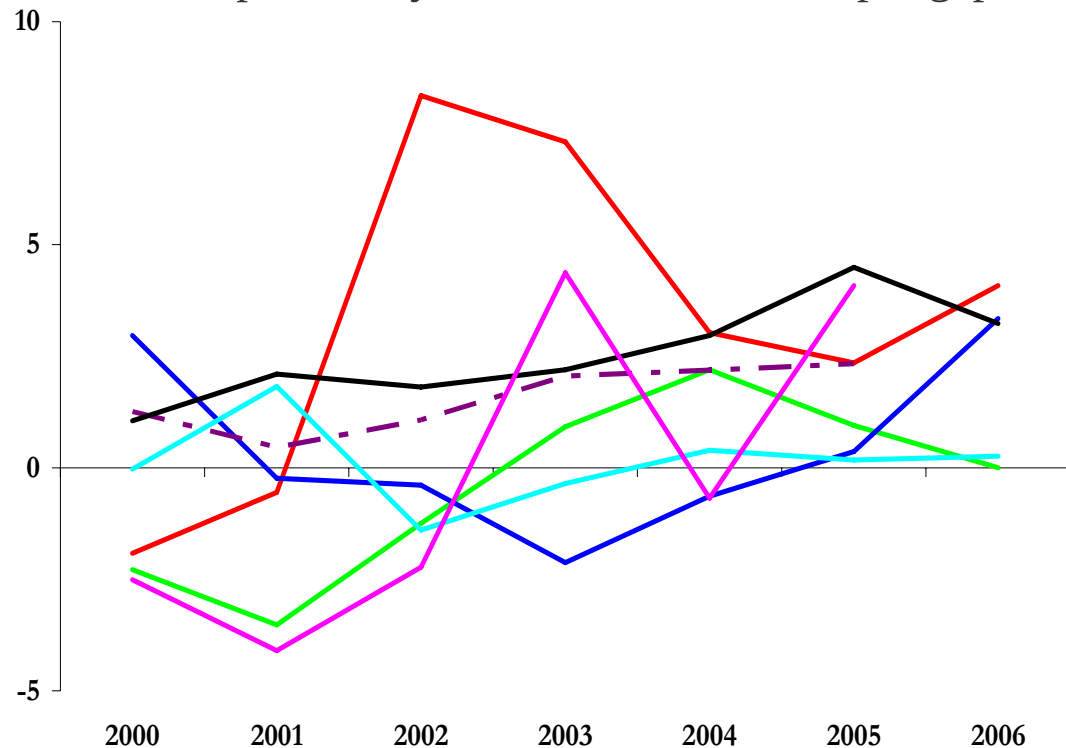
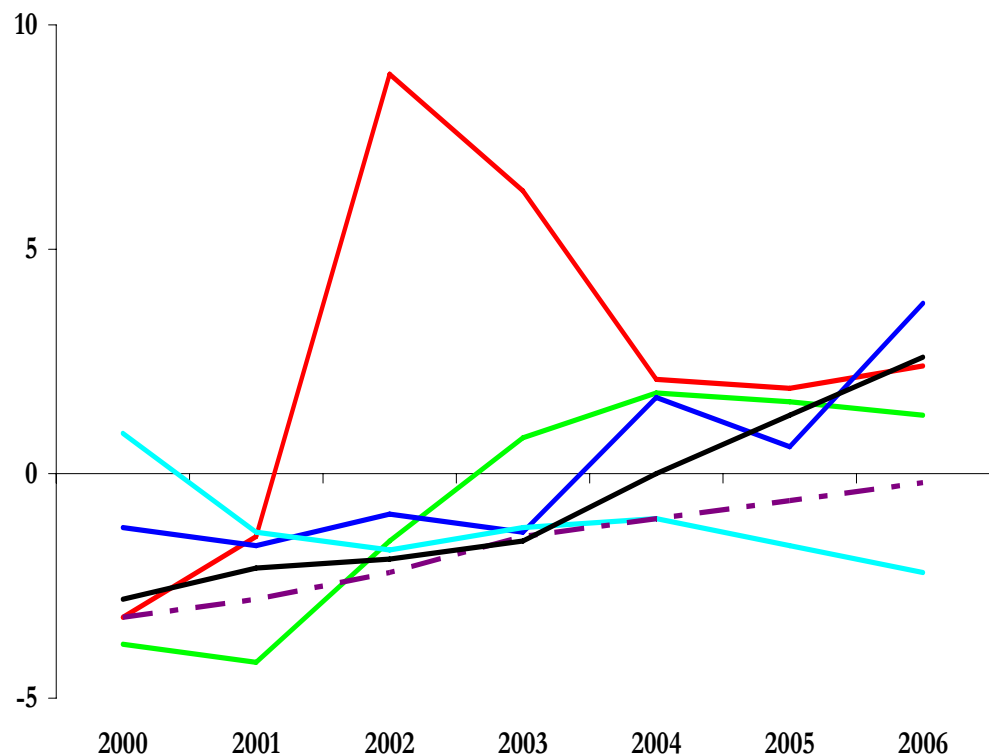
4. Is it only Terms of Trade?

Current Account

(% of GDP)

Actual data

Unexplained by terms of trade and output gap



— Argentina — Brazil — Chile — Colombia - - - Mexico — Peru — Venezuela

Note: for scale reasons Venezuela has been excluded from actual data sample

4. Is it only Terms of Trade?

Latin America: Differences with the Mean 1990-2006

	Growth			Overall Fiscal Balance			Current Account Deficit		
	Actual	ToT Effect	Residual	Actual	Tot and Output Gap Effect	Residual	Actual	Tot and Output Gap Effect	Residual
1990-99	-0.1	-0.5	0.4	0.0	0.0	0.0	-1.5	-0.8	-0.7
2000-04	-1.0	0.3	-1.3	-0.7	-0.5	-0.3	1.4	0.7	0.7
2005-06	2.6	1.1	1.5	1.9	0.9	1.1	4.0	1.7	2.3

Source: Author's calculations. The sample consists of the following countries: Argentina, Brasil, Chile, Colombia, Mexico, Peru and Venezuela.

- Simple exercise: Period 1990-2006, estimations of annual growth on level and growth of terms of trade (current and lagged), and estimations of current account and fiscal balance on the level of terms of trade and output gap (current and lagged). Reported: differences with respect to mean, the estimated effect of explanatory variables, and residual. The following figures show: country by country results for this decade.
- The evidence shows that not all is terms of trade. Although growth, fiscal balance and current account improve in part due to terms of trade and cyclical adjustment, there is still an important unexplained component, which suggests that there has been improvement beyond the effect of terms of trade.

5. Concluding Remarks

- Despite some criticism of the 1990s policies and reforms, today Latin American countries partial success is due to some extent to reforms initiated the last decade: trade liberalization and macroeconomic stabilization.
- Some remaining challenges: Institutional improvement and social inclusion.
- Risks of deterioration of external environment,—financial turmoil and decline in terms of trade—requires commitment to maintain macroeconomic and financial stability.