Latin America and the Rise of the South

At a Crossroads

Augusto de la Torre & Daniel Lederman

Office of the Chief Economist for Latin America & the Caribbean

Based on De la Torre, Didier, Ize, Lederman & Schmukler (2015); and De la Torre, Ize, Filipinni & Sasson (2016)
This presentation

- The rise of the South in the global economy
- What it meant for Latin America
- The China-Latin America relations at a crossroads
The rise of the South accelerates since the early 2000s, when China awakens

Note: North = U.S, Canada, Western Europe and Japan. South = the rest of the world.
The South is no longer the periphery

Systemic relevance in the global trade

Closeness = Similarity in trade structure

Source: Calculations are based on data from the Direction of Trade Statistics (DOTS).
From the point of view of LAC: three major global shocks

- **Supply:** surge in manufacturing exports from Asia
  - Downward pressures on manufactured import prices
  - Competition in local and third-country manufacturing markets

- **Demand:** surge in Asian demand for commodities
  - Upward pressures on commodity prices
  - Rise in the terms of trade for commodity exporting countries

- **Financial:** the supply shock exceeded the demand shock, leading to huge current account surpluses in the South
  - A global savings glut
The savings glut led to low or negative real international interest rates

Real Interest Rate in the US

Source: Data from the Board of Governors of the Federal Reserve System.
The supply and demand shocks led to a major terms-of-trade gain...for South America…

Terms of Trade in Latin America
…which resulted in a significant expansion in South America’s domestic demand…

LAC: Terms of Trade vs Domestic Demand Expansion

2005-2011
Growth rates rose to historic heights in South America…

Real GDP Growth: International Comparison

Note: MCC = Mexico, Central America and the Caribbean. SA = South America
...as LAC-South followed the China cycle while LAC-North followed the US cycle
Extraordinary social progress in LAC – the notable legacy of the super-cycle…

Evolution of the Social Structure in LAC

Source: SEDLAC (CEDLAS and the World Bank).
…which, together with expanded education, led to pro-poor labor market dynamics

South America gained space in commodities, while Mexico lost in manufactures

Source: Calculations are based on data from WITS / Comtrade.
Trade structures contributed to shaping the implications of the global shocks for LAC…

Export Similarity Indexes in Manufacturing

Brazil

Mexico

China  World  United States  European Union  Japan
Hence, Mexico went through a painful adjustment in manufacturing employment.

**Employment Shares in the Formal and Informal Manufacturing Sectors**

### Brazil

<table>
<thead>
<tr>
<th>Year</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-99</td>
<td>3.6</td>
<td>10.2</td>
</tr>
<tr>
<td>2001-05</td>
<td>4.7</td>
<td>9.3</td>
</tr>
<tr>
<td>2006-11</td>
<td>4.3</td>
<td>9.9</td>
</tr>
</tbody>
</table>

### Mexico

<table>
<thead>
<tr>
<th>Year</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-04</td>
<td>8.2</td>
<td>13.4</td>
</tr>
<tr>
<td>2006-12</td>
<td>8.3</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Share of employment in the manufacturing sectors (%)
But South America’s participation in GVCs did not increase; while Mexico’s and CA’s flattened.

Exports of Intermediate Goods as a Share of Total Exports in Three Value Chains

In contrast to Asia, **multi-latinas** cross borders to expand markets and diversify risks rather than to join GVCs. (Lederman et al. 2014)

Note: The three major GVCs are apparel and footwear, electronics, and automobiles. Source: Calculations are based on data from WITS/COMTRADE.
… all of which is reflected in a much less dense trade network in LAC compared to Asia.
Relative to South East Asia, LAC is a domestic demand-oriented region...

Exports of Goods and Services

LAC-7

EAP-5

Note: LAC-7 includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. EAP-5 includes Indonesia, Malaysia, Philippines, Republic of Korea, and Thailand.
…which is a reflection of low-saving rates in LAC relative to South East Asia

Saving, Investment, and the Current Account

LAC-7

EAP-5

Note: LAC-7 includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. EAP-5 includes Indonesia, Malaysia, Philippines, Republic of Korea, and Thailand.
Low saving implies less competitive real exchange rates or higher sovereign risk.

National Saving, Real Exchange Rate, and Sovereign Risk Rating Gaps

Sources: Calculations are based on UNStats, WDI, and Institutional Investor databases.
The Asia-Latin America affair at a crossroads

- For the world
  - China’s relevance and significant influence on global markets is here to stay…
  - …but the fast rise is maturing – will evolve at a slower pace and mutate structurally

- For Latin America
  - The commodities super-cycle is over, adjustment is inevitable
  - A tradables-based growth pattern is needed and Asia will have to be in the picture

- All of this is surrounded by uncertainties
  - Risk of a global stagnation
  - Resolution of the savings glut

- The new links that were forged in the last 15 years between Asia and Latin America were the result of commercial imperatives…

- …but a future of deeper commercial and financial relations will require a mindful and proactive building of networks
Thanks

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Extra Slides
At a global level, investment in China pulls the world down while the US consumer pulls it up...

United States: Contribution to Growth from Consumption and Investment

China: Contribution to Growth from Consumption and Investment
The fall in trade in South East Asia constituted a bad omen – the risk of a global slowdown!

China: Exports and Imports

SEA-5: Exports and Imports

Note: LAC-7 includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. EAP-5 includes Indonesia, Malaysia, Philippines, Republic of Korea, and Thailand.