

Latin America and the Rise of the South

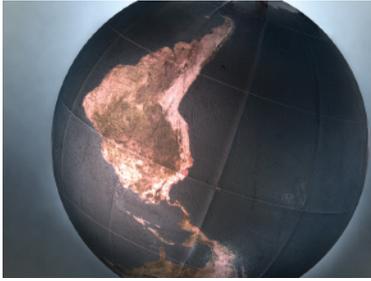
At a Crossroads



Augusto de la Torre & Daniel Lederman

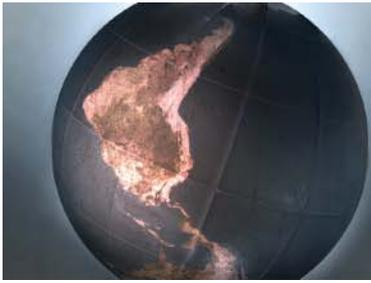
Office of the Chief Economist for Latin America & the Caribbean

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

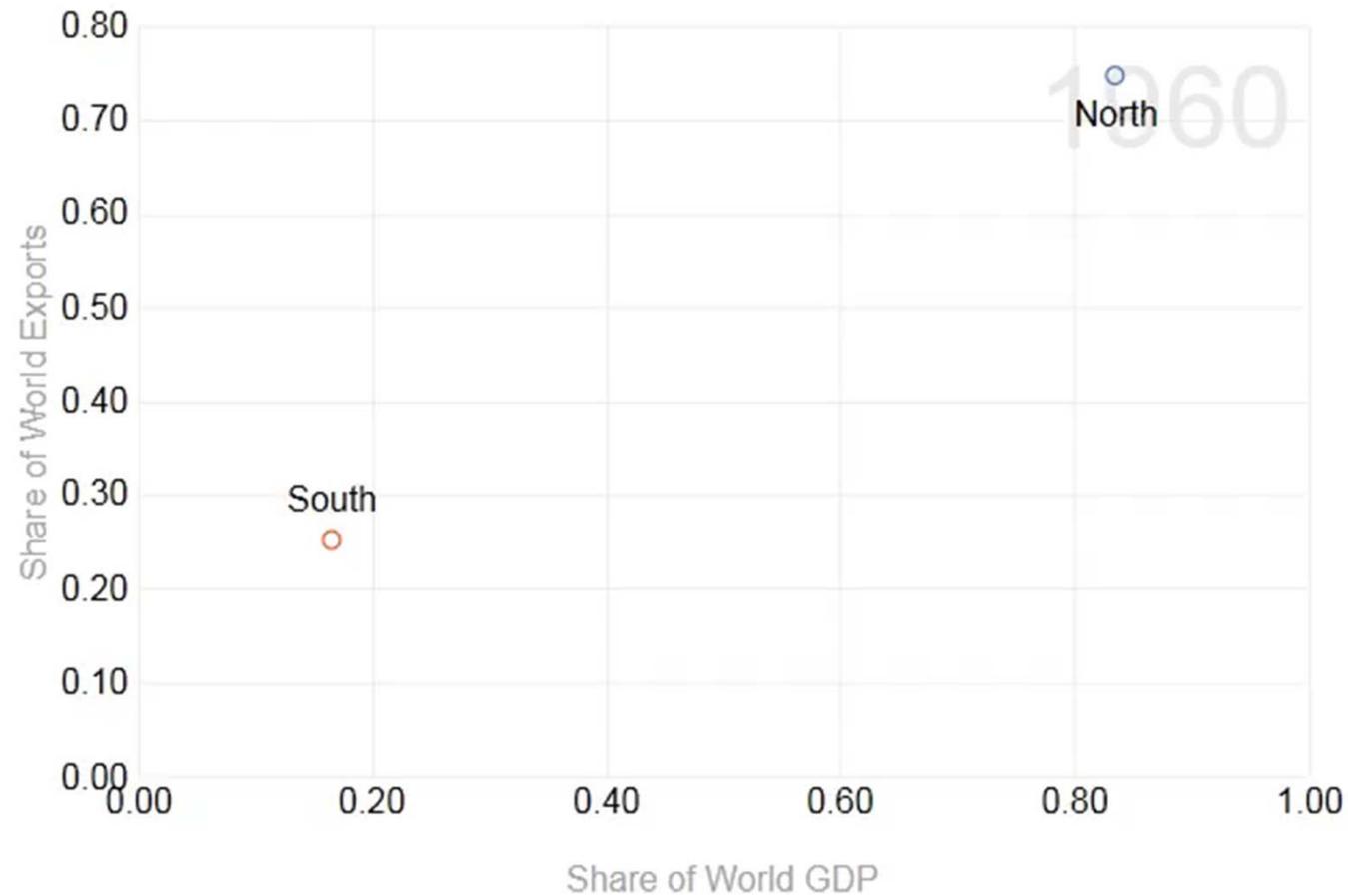


This presentation

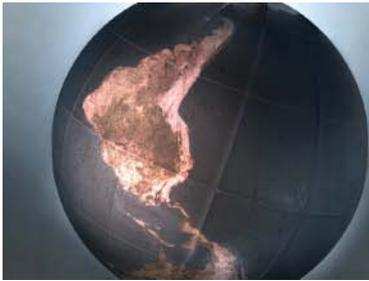
- The rise of the South in the global economy
- What it meant for Latin America
- The China-Latin America relations at a crossroads



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.

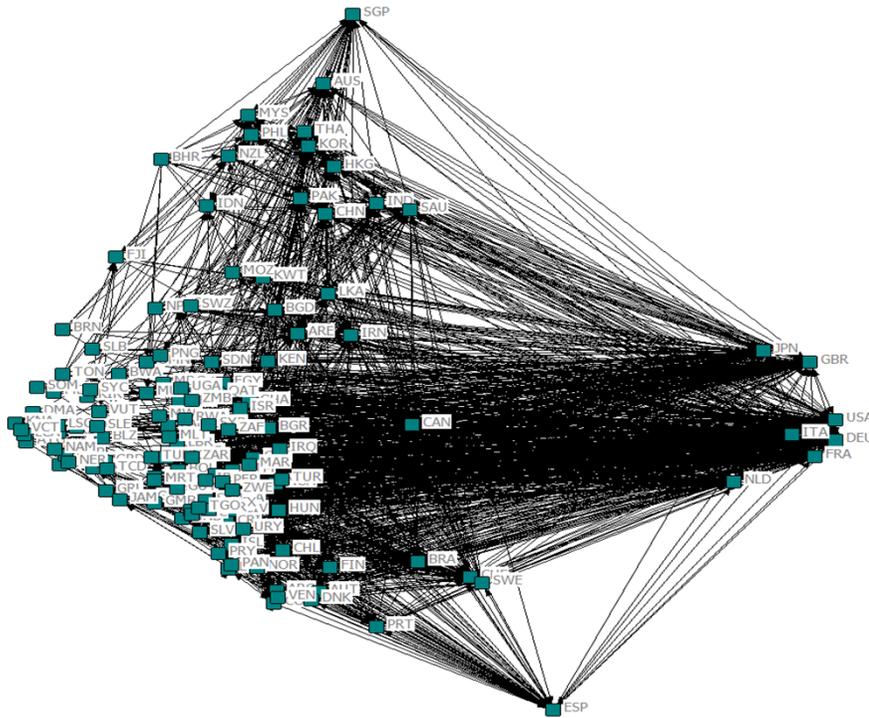


The South is no longer the periphery

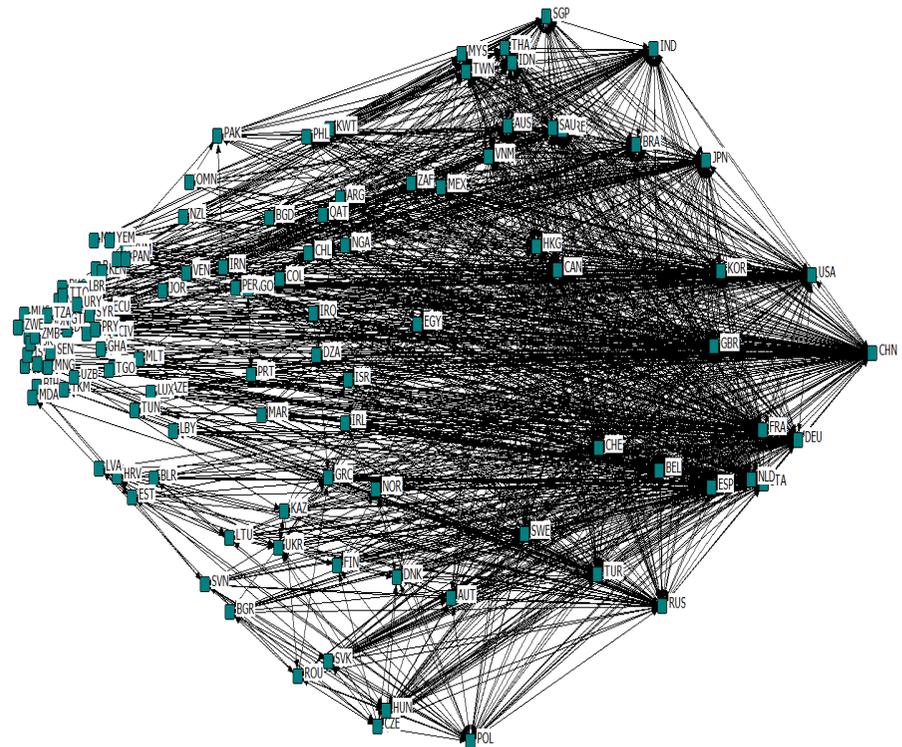
1980

2014

Closeness = Similarity in trade structure

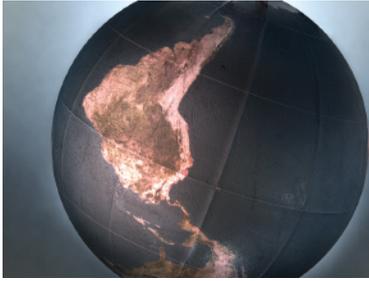


Closeness = Similarity in trade structure



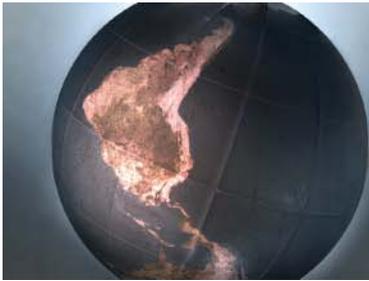
Systemic relevance in the global trade

Systemic relevance in the global trade



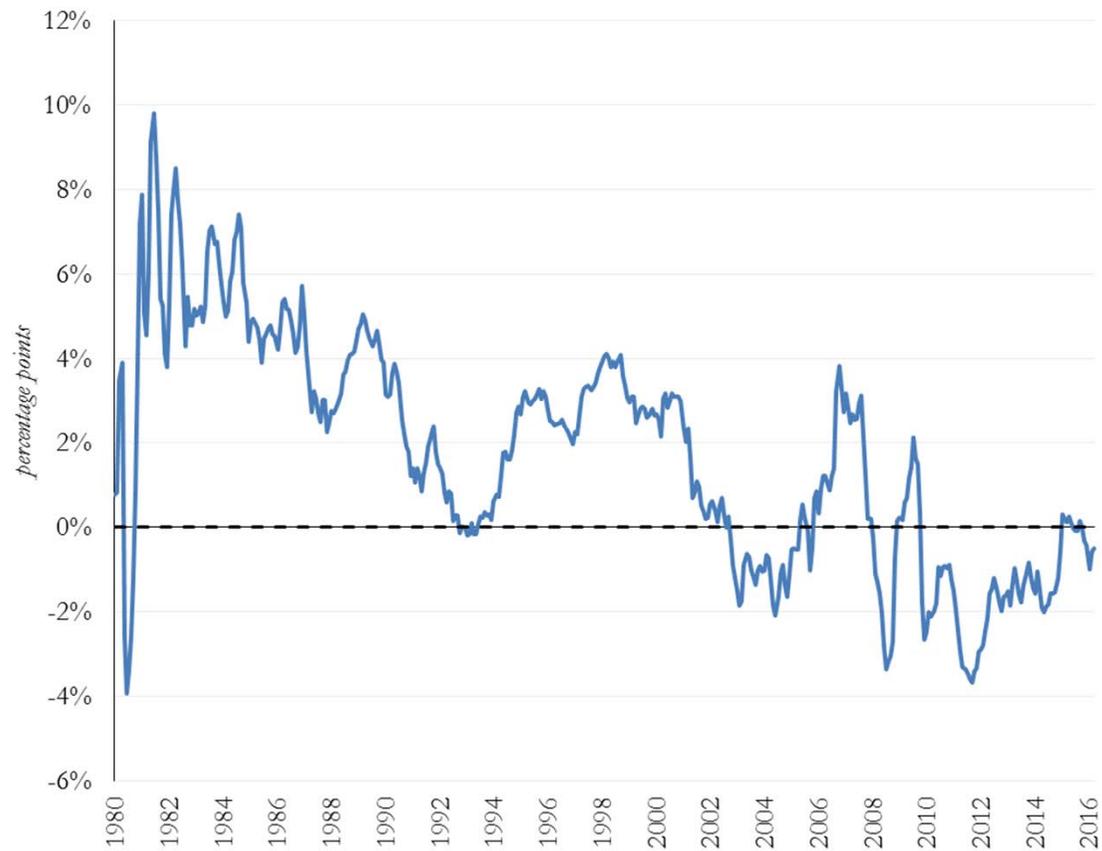
From the point of view of LAC: three major global shocks

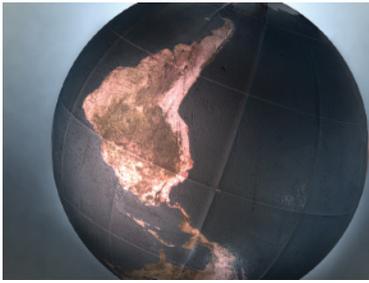
- **Supply:** surge in manufacturing exports from Asia
 - Downward pressures on manufactured import prices
 - Competition in local and third-country manufacturing markets
- **Demand:** surge in Asian demand for commodities
 - Upward pressures on commodity prices
 - Rise in the terms of trade for commodity 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

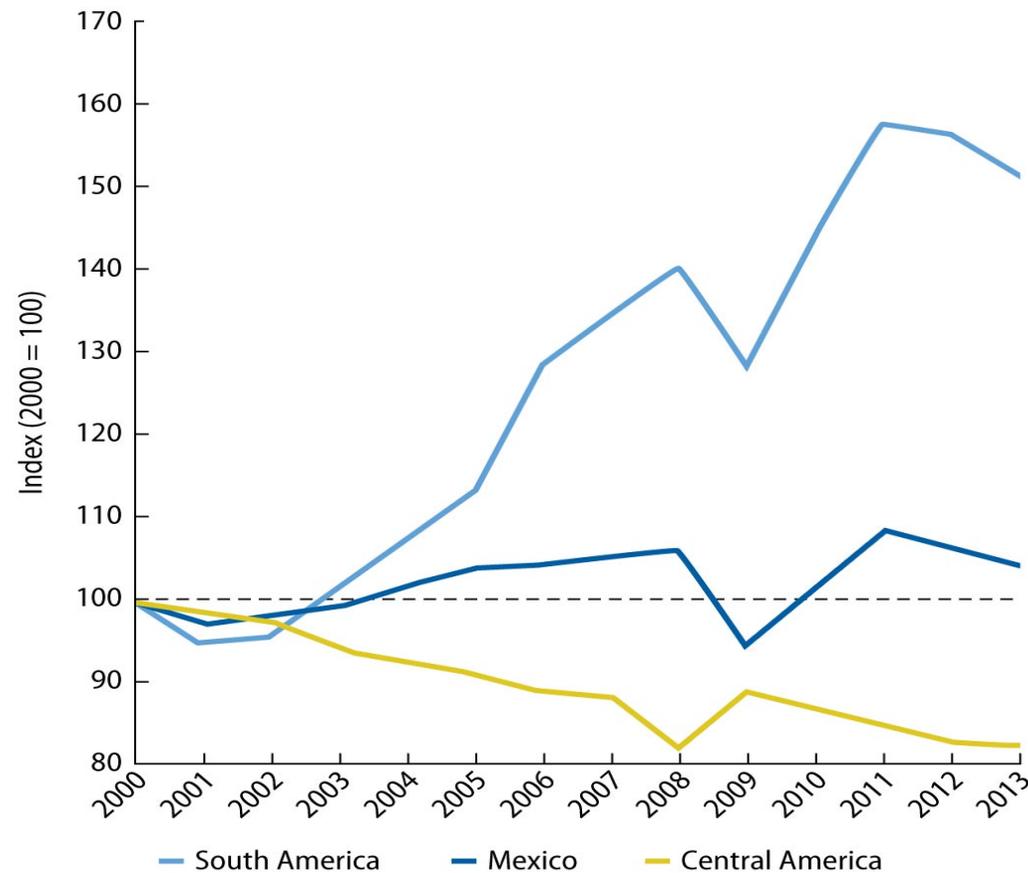
Real Interest Rate in the US

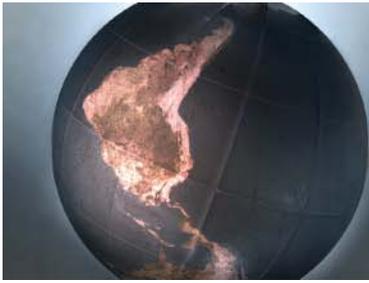




The supply and demand shocks led to a major terms-of-trade gain...for South America...

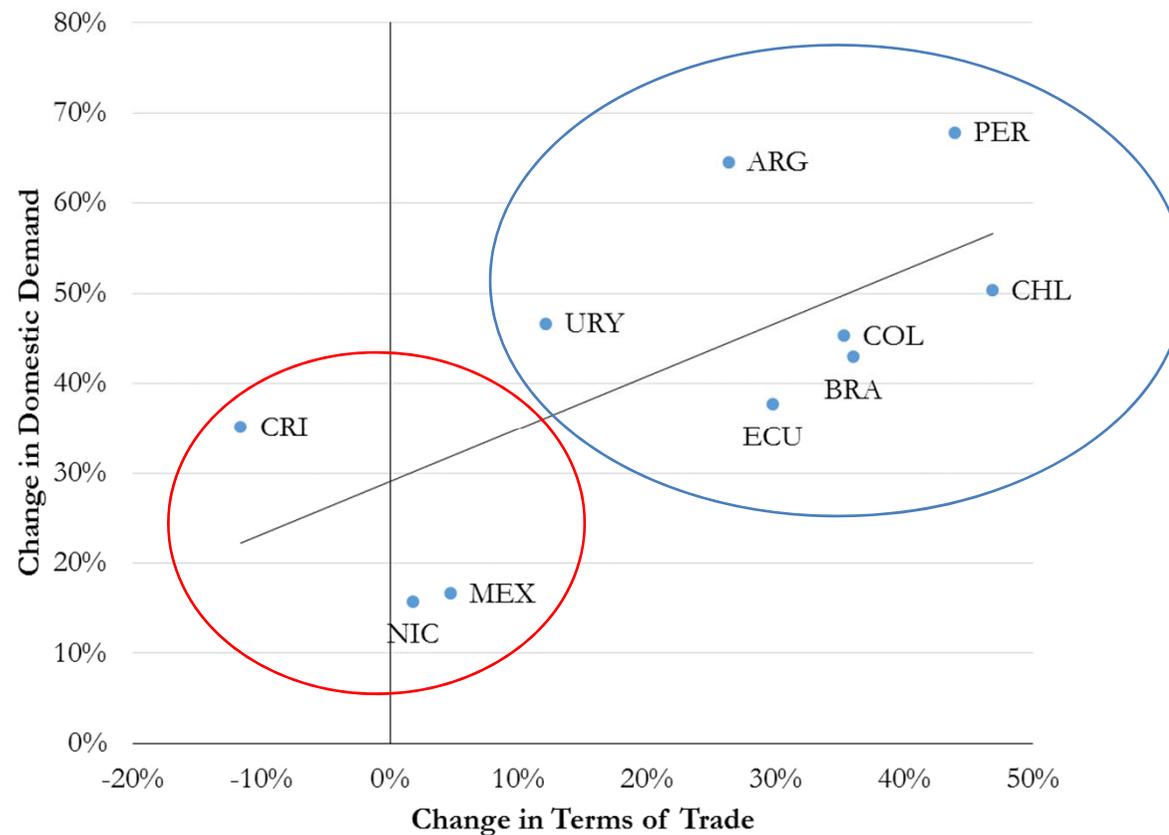
Terms of Trade in Latin America

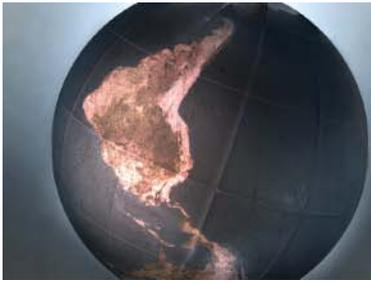




...which resulted in a significant expansion in South America's domestic demand...

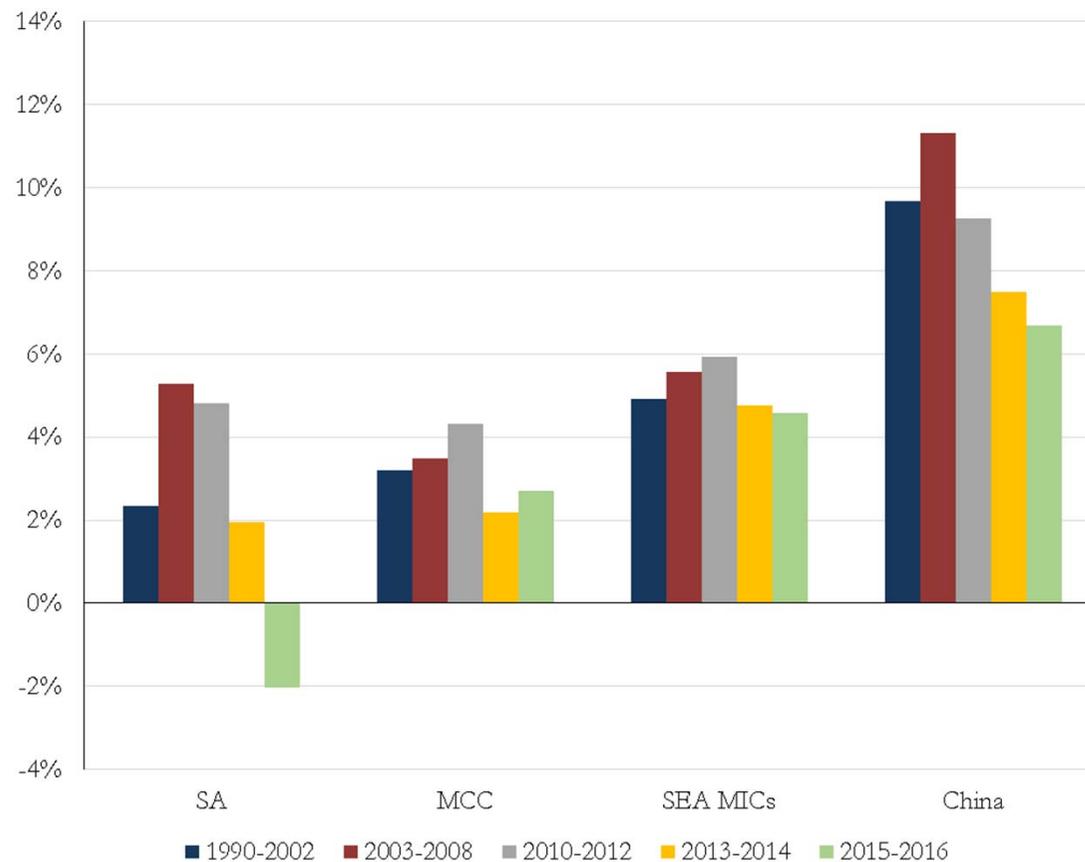
LAC: Terms of Trade vs Domestic Demand Expansion 2005-2011

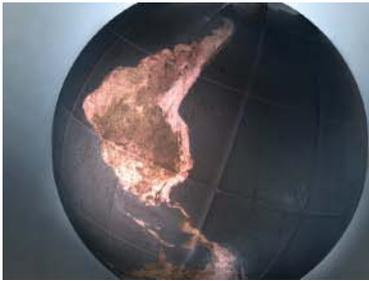




Growth rates rose to historic heights in South America...

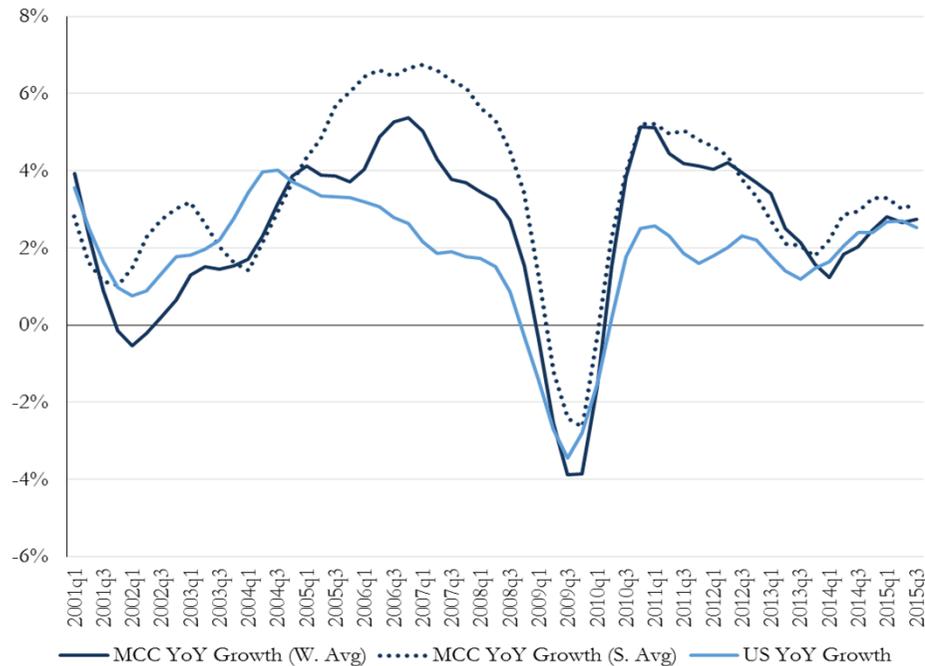
Real GDP Growth: International Comparison



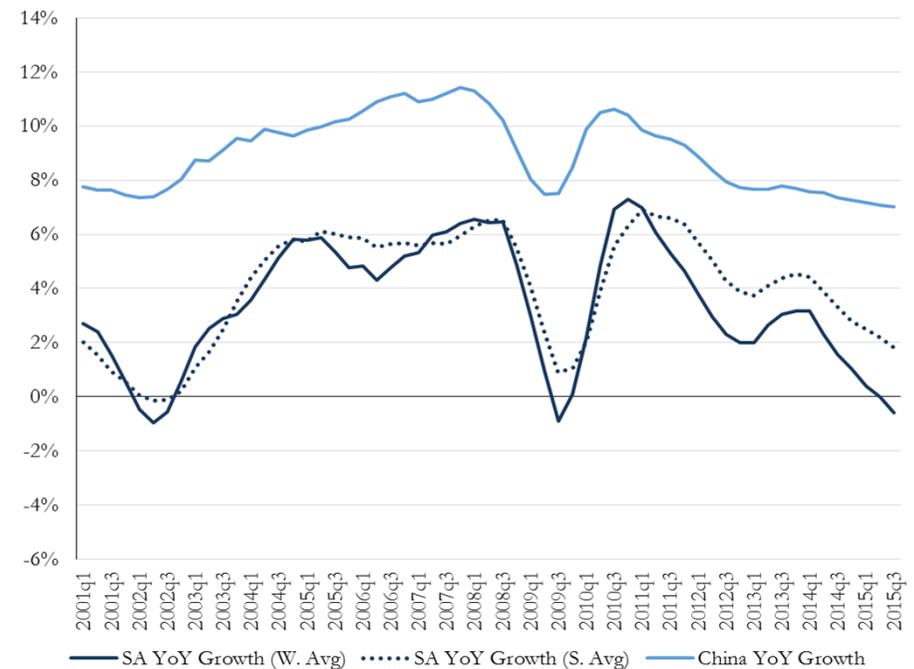


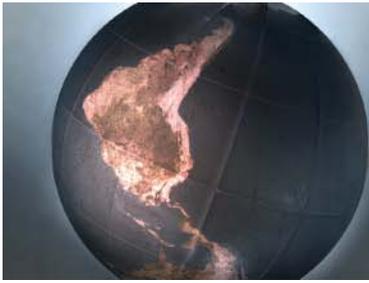
...as LAC-South followed the China cycle while LAC-North followed the US cycle

Real GDP Growth in MCC and the US



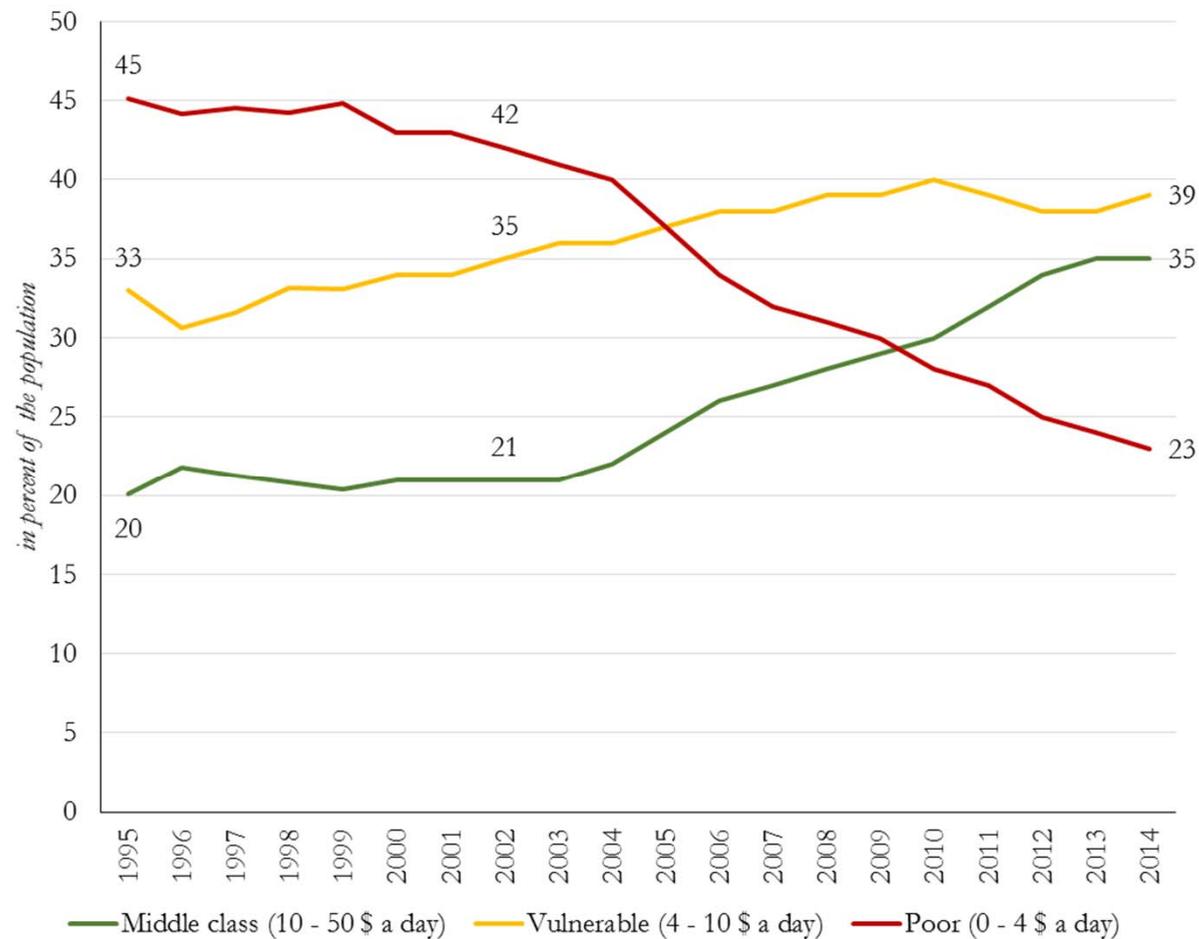
Real GDP Growth in SA and China

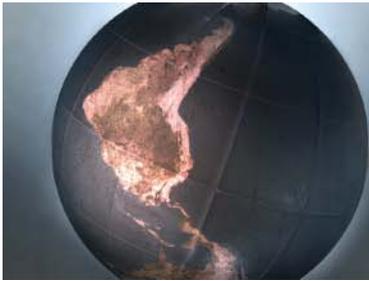




Extraordinary social progress in LAC – the notable legacy of the super-cycle...

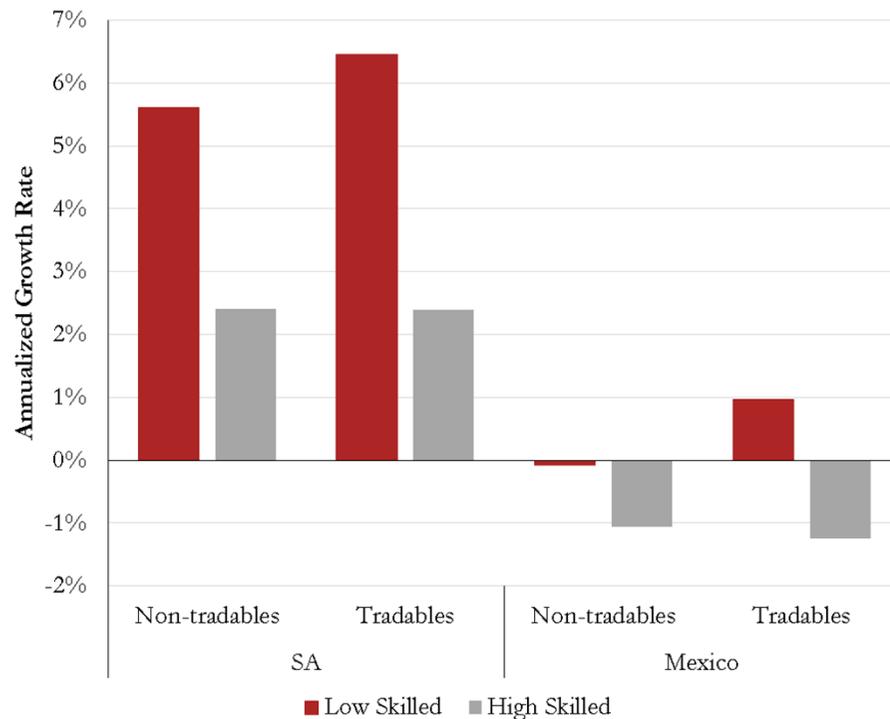
Evolution of the Social Structure in LAC



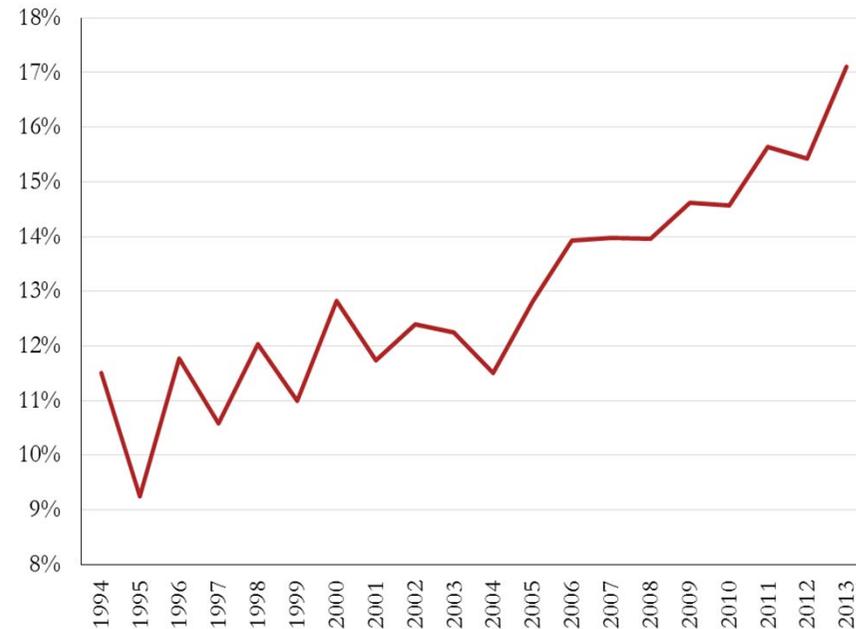


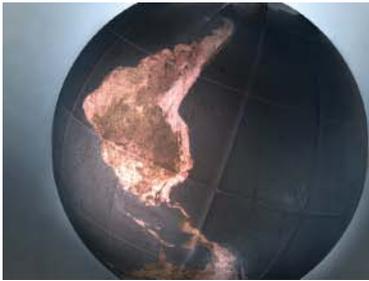
...which, together with expanded education, led to pro-poor labor market dynamics

Real Wage Growth by Sector and Skill Level during the Boom, 2002-2011

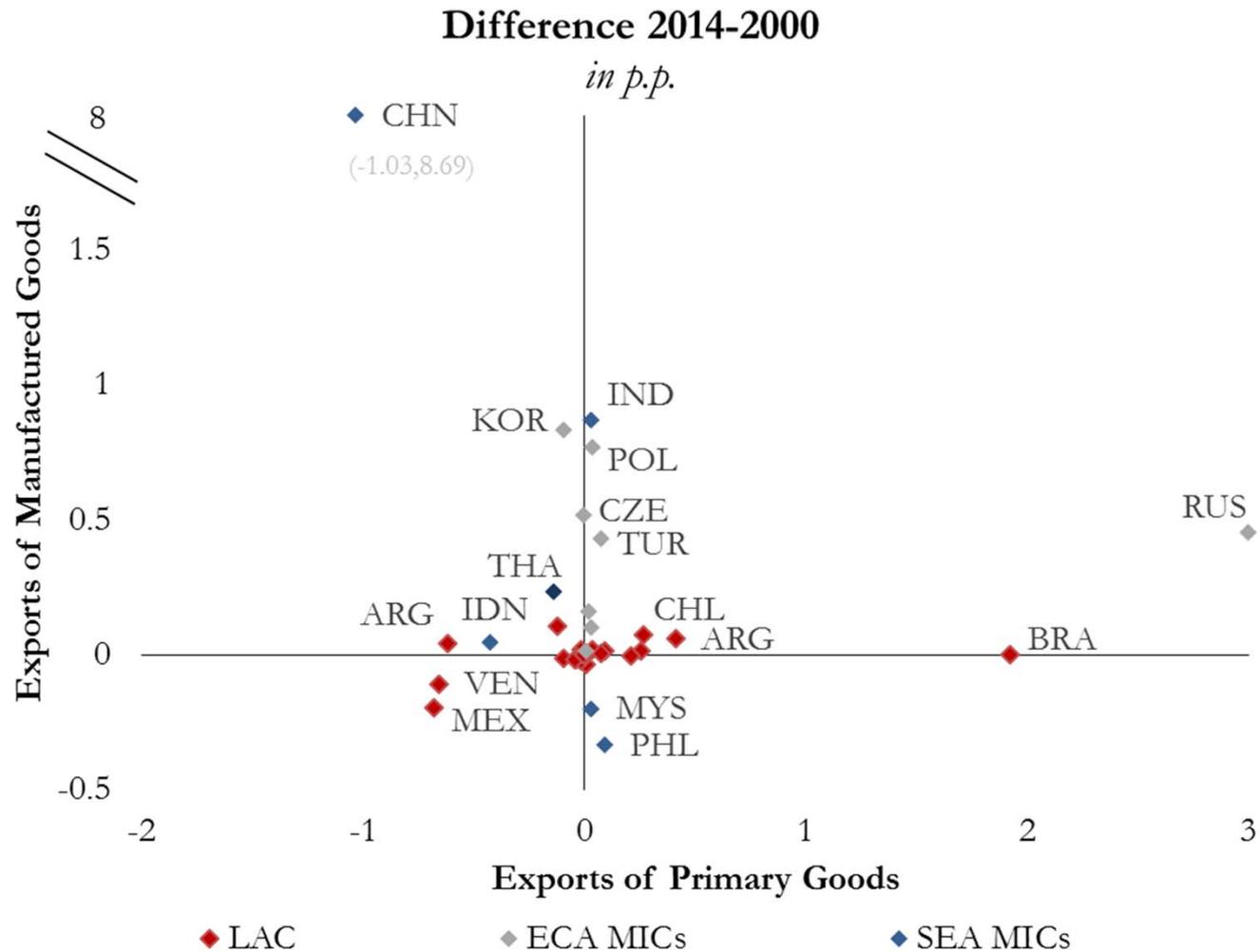


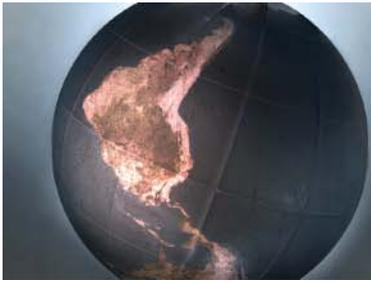
South America: Proportion of the Labor Force with Some Tertiary Education





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

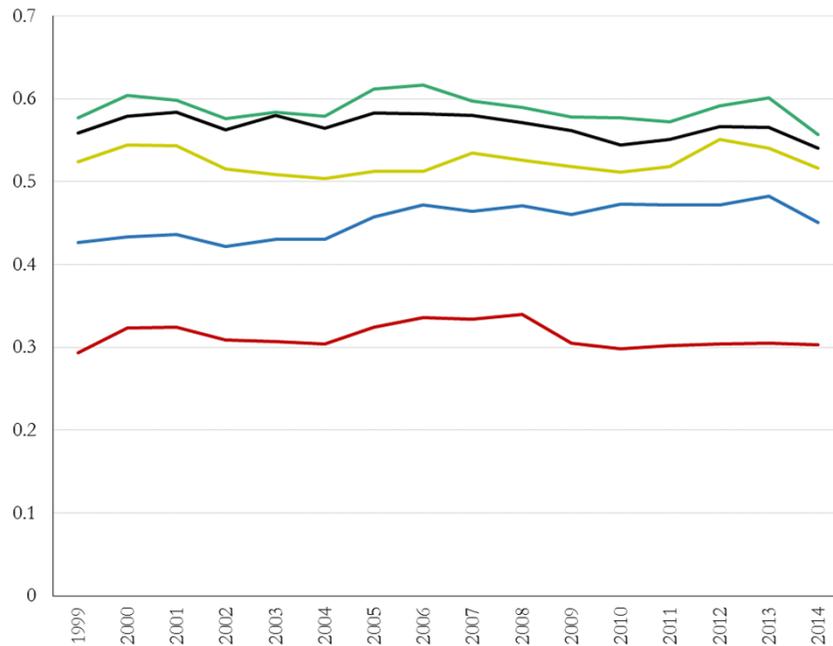




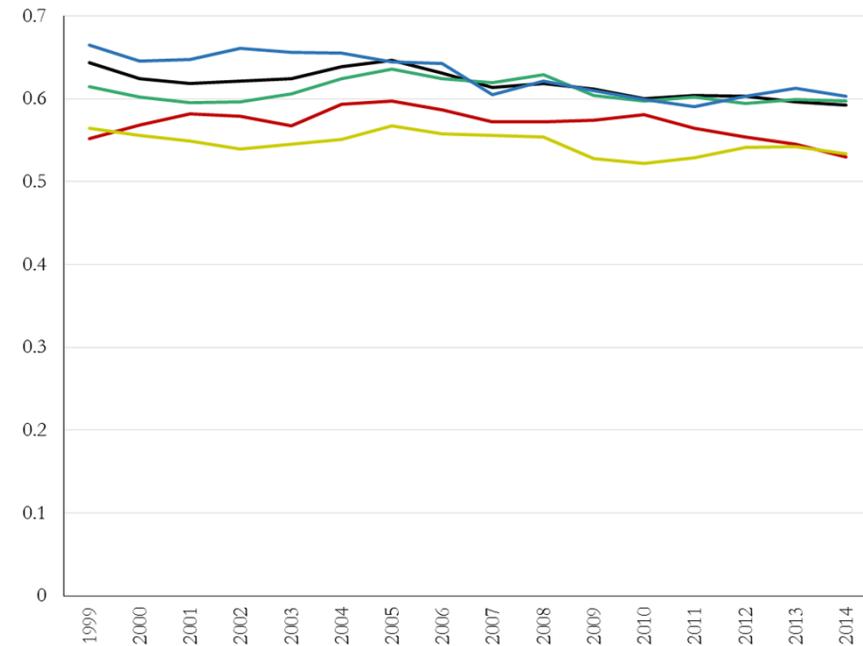
Trade structures contributed to shaping the implications of the global shocks for LAC...

Export Similarity Indexes in Manufacturing

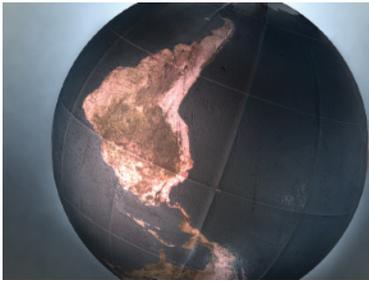
Brazil



Mexico



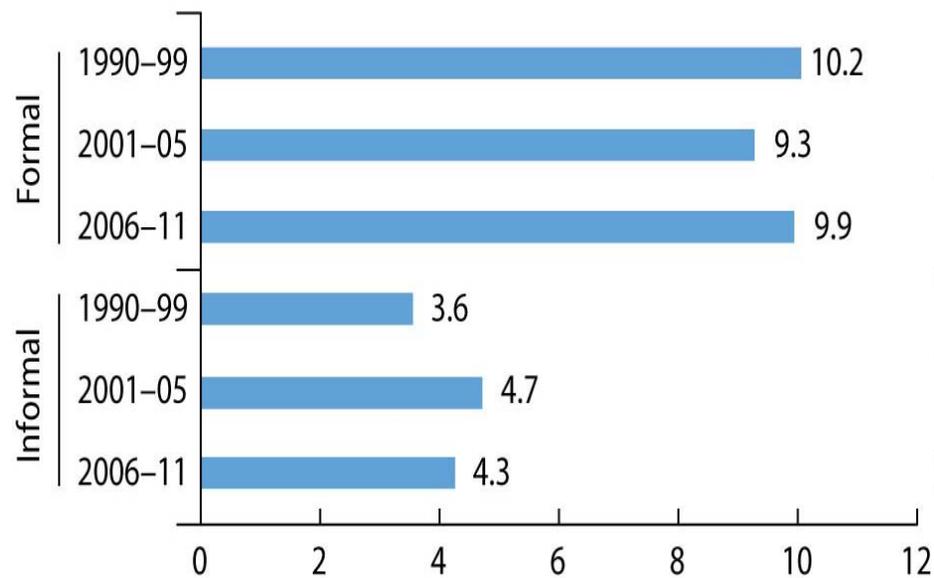
— China — World — United States — European Union — Japan



Hence, Mexico went through a painful adjustment in manufacturing employment

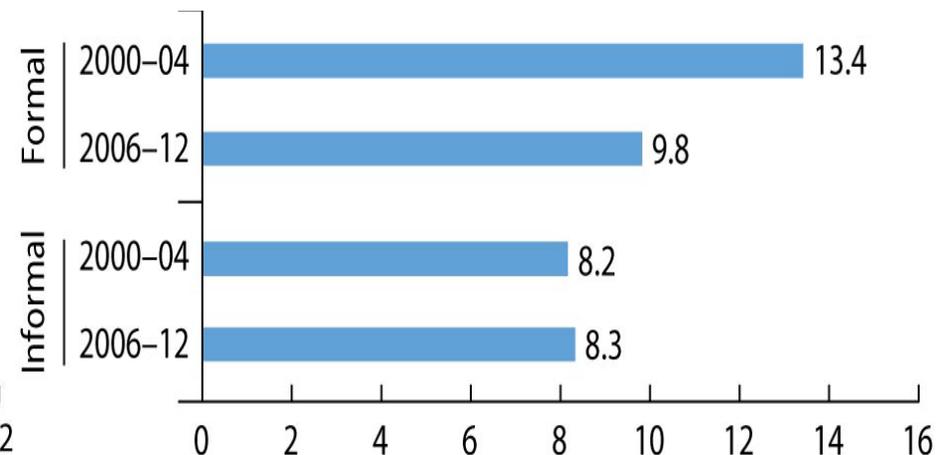
Employment Shares in the Formal and Informal Manufacturing Sectors

Brazil

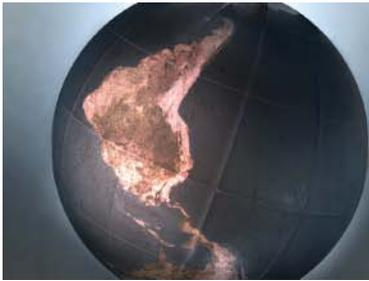


Share of employment in the manufacturing sectors (%)

Mexico

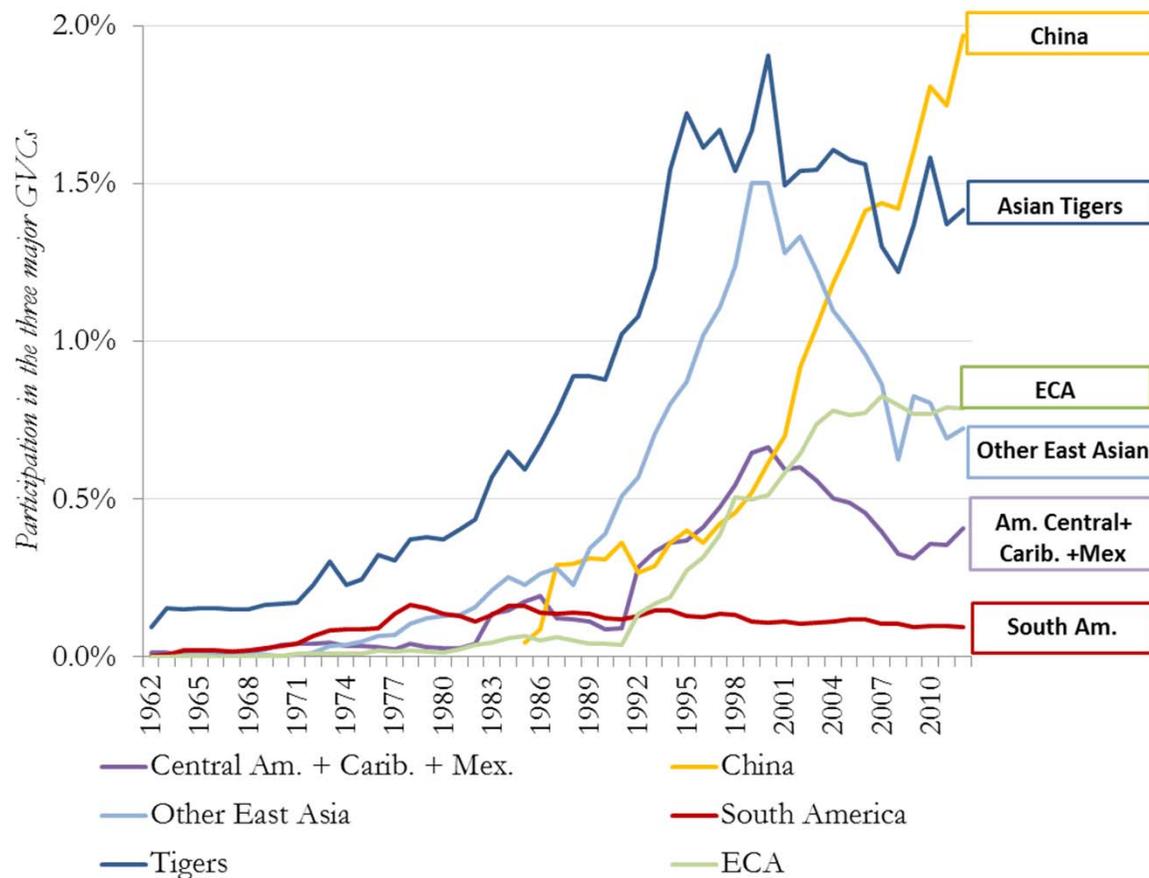


Share of employment in the manufacturing sectors (%)

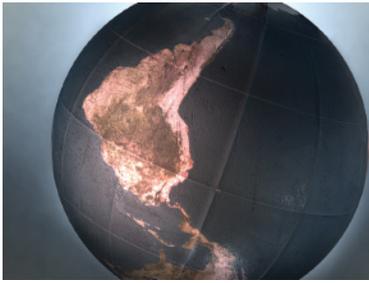


But South America's participation in GVCs did not increase; while Mexico's and CA's flattened

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



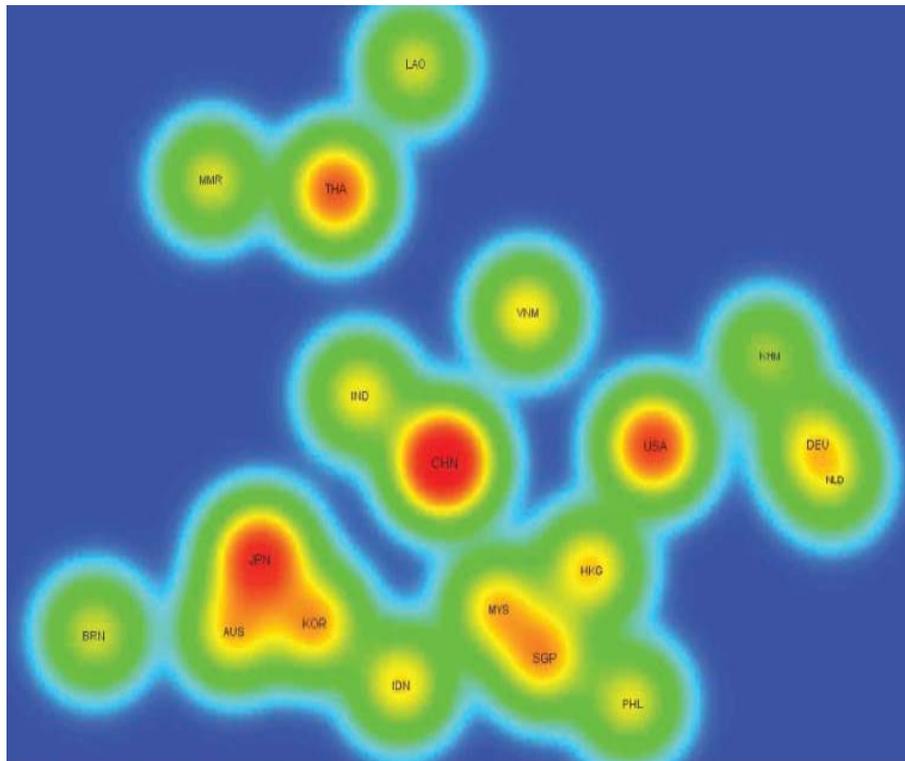
*In contrast to Asia, **multi-latinas** cross borders to expand markets and diversify risks rather than to join GVCs. (Lederman et al. 2014)*



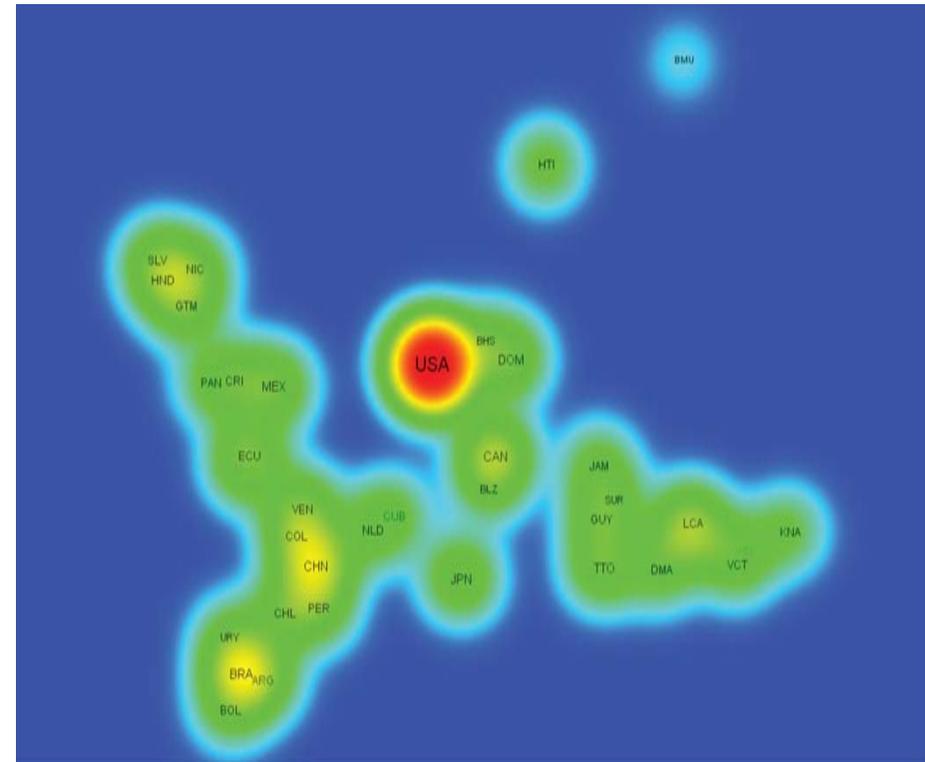
... all of which is reflected in a much less dense trade network in LAC compared to Asia

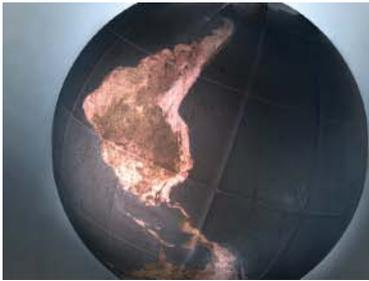
2012

The Asian Trade Network



The Latin American Trade Network

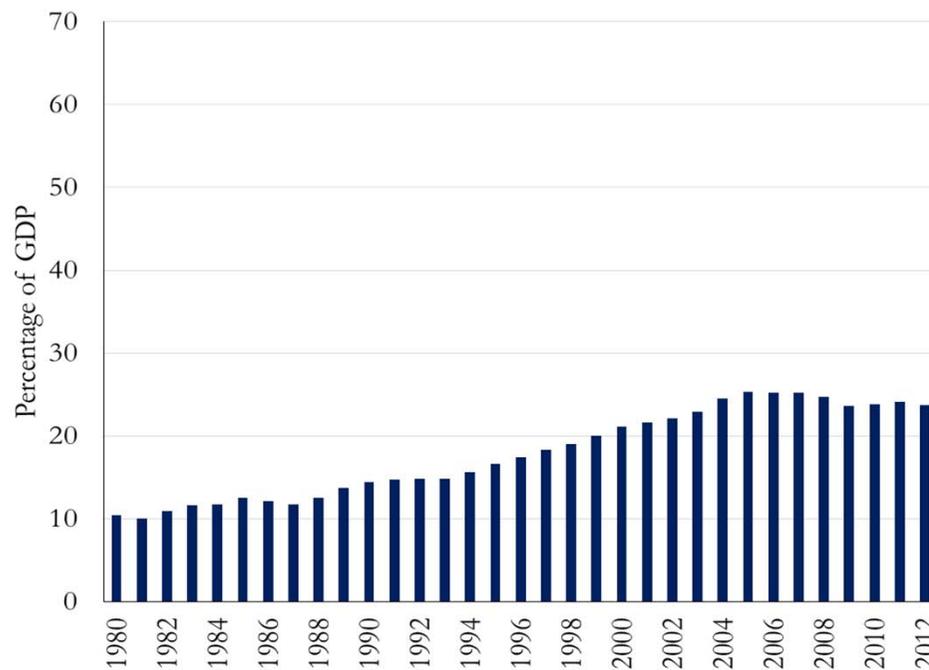




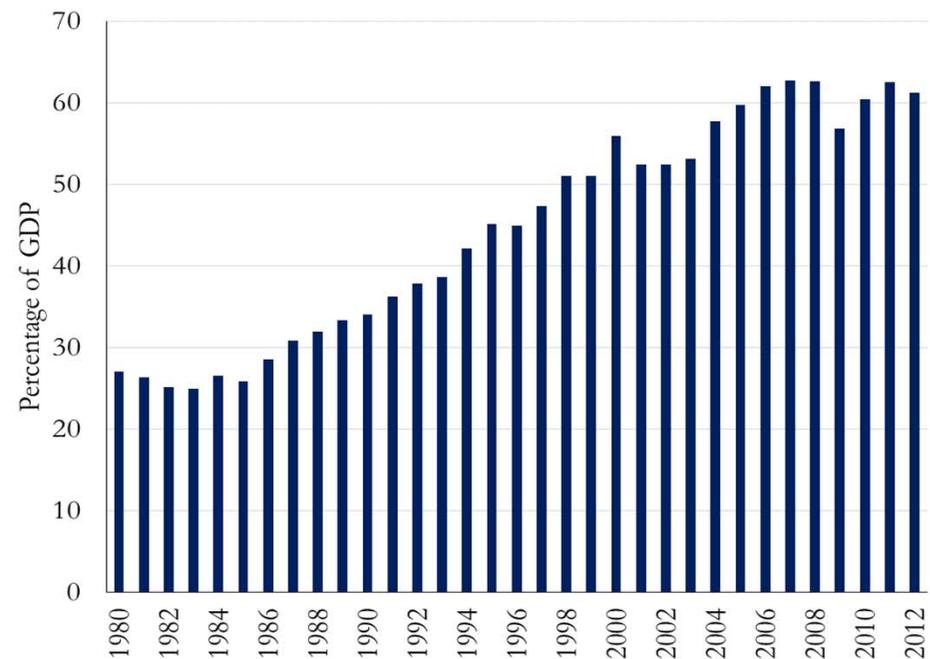
Relative to South East Asia, LAC is a domestic demand-oriented region...

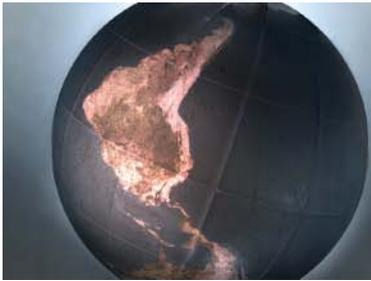
Exports of Goods and Services

LAC-7



EAP-5

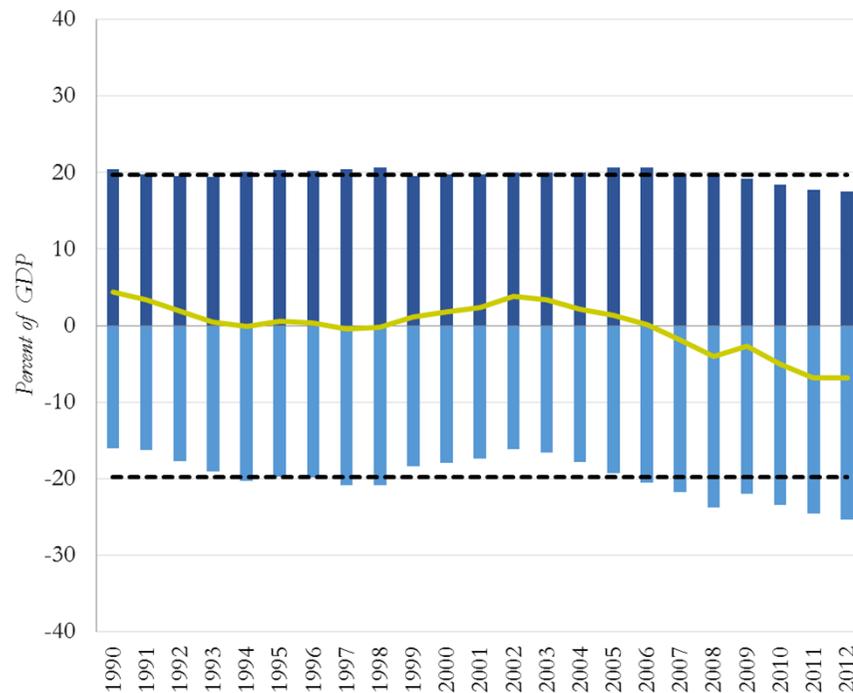




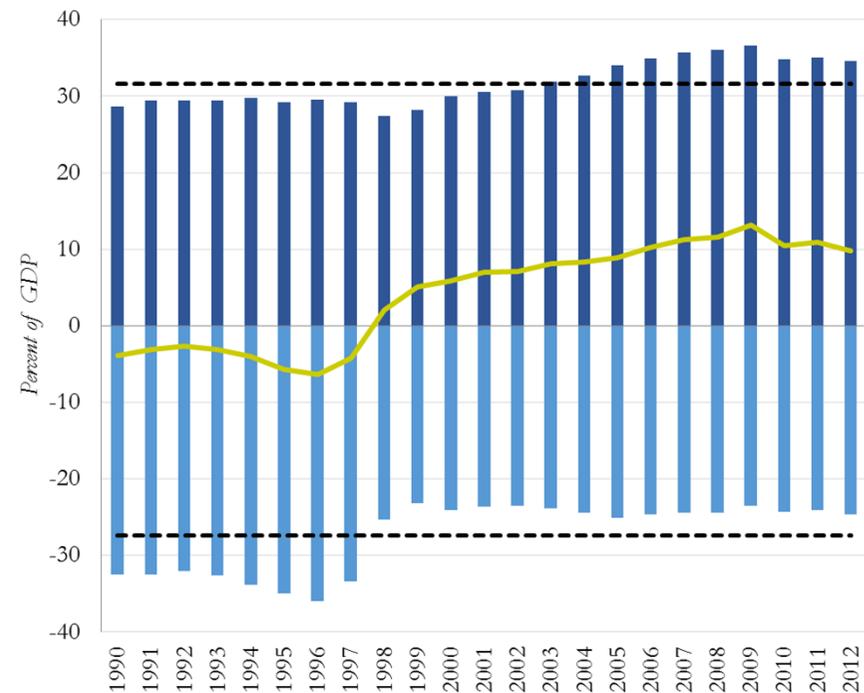
...which is a reflection of low-saving rates in LAC relative to South East Asia

Saving, Investment, and the Current Account

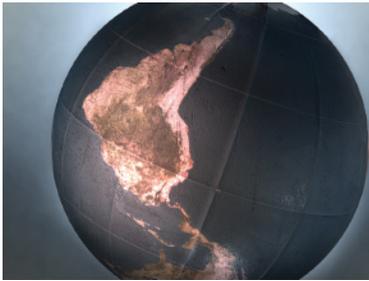
LAC-7



EAP-5



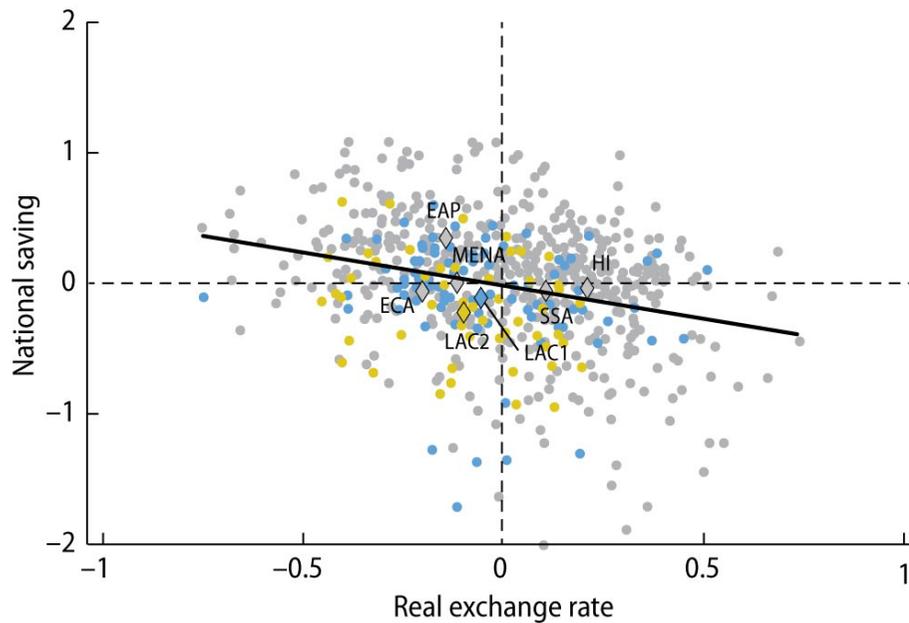
Investment Saving Current Account --- 1990-2012 Averages



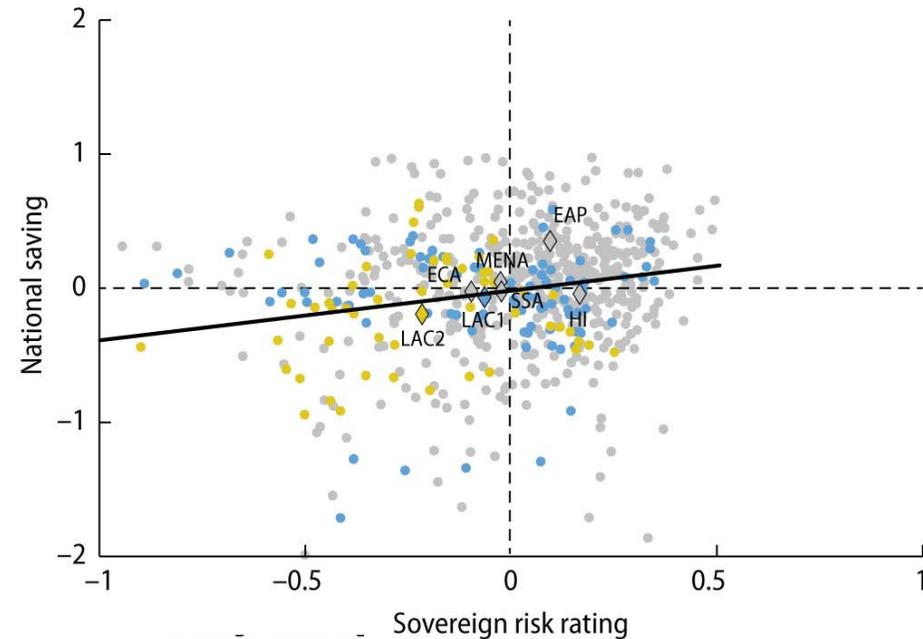
Low saving implies less competitive real exchange rates or higher sovereign risk

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

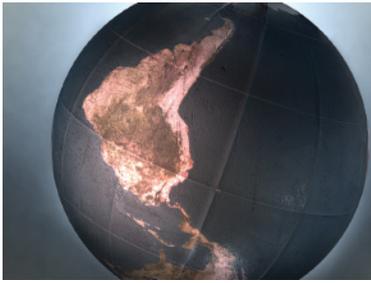
a. Domestic saving and real exchange rate gaps



b. Domestic saving and sovereign risk rating gaps

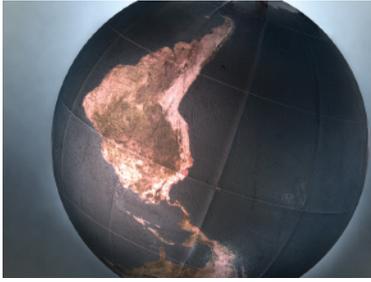


- LAC1 countries per period
- ◆ LAC1 countries 1990–2012 average
- LAC2 countries per period
- ◆ LAC2 countries 1990–2012 average
- Other countries per period
- ◆ Other groups of countries 1990–2012 average



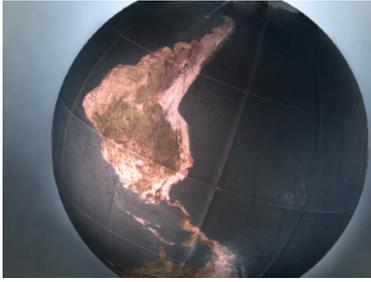
The Asia-Latin America affair at a crossroads

- 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

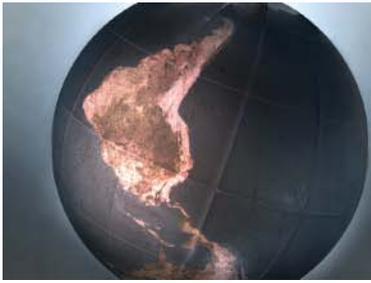


Thanks

www.worldbank.org/laceconomist

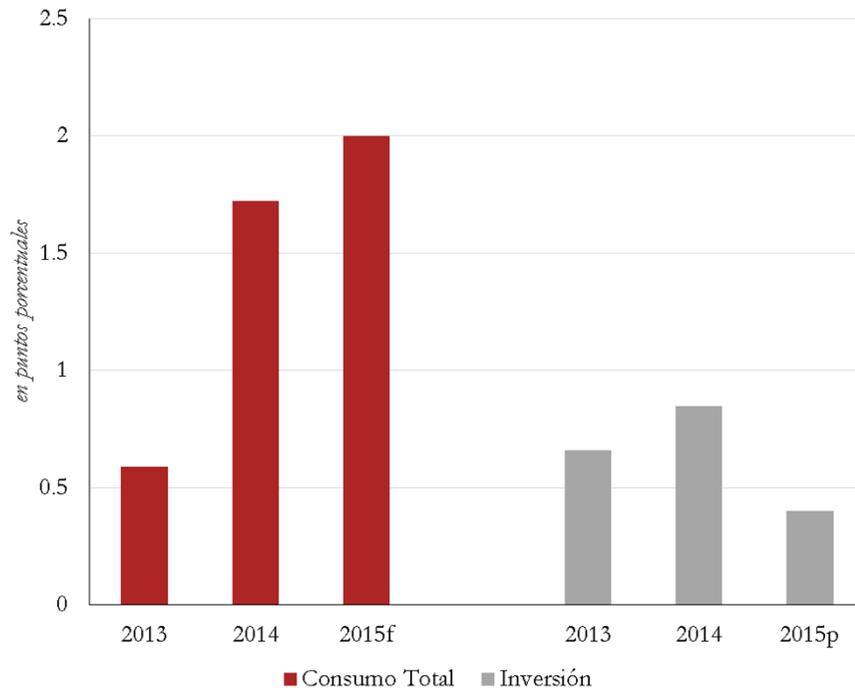


Extra Slides

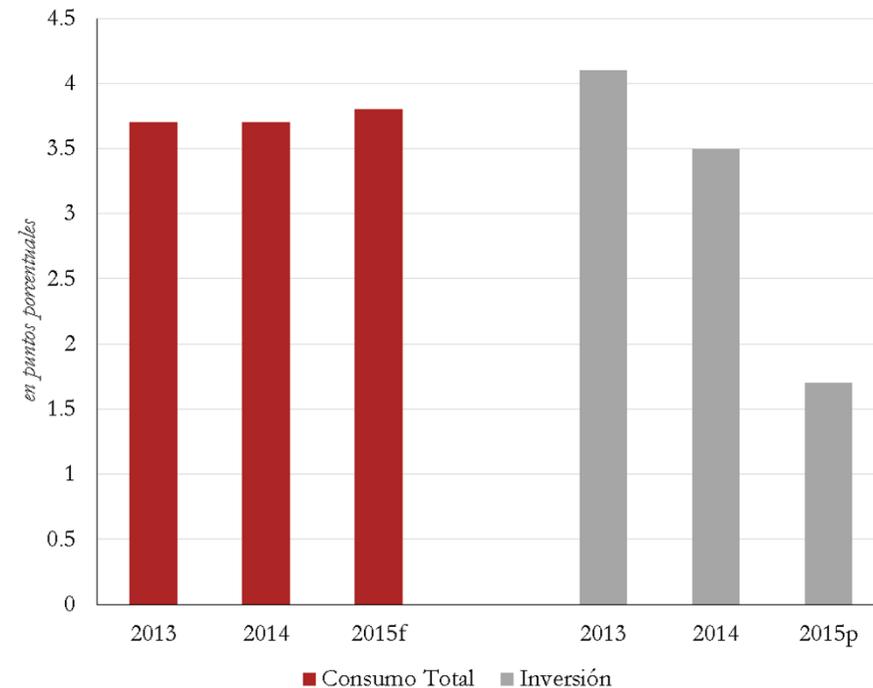


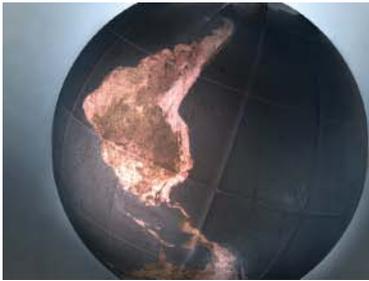
At a global level, investment in China pulls the world down while the US consumer pulls it up...

United States: Contribution to Growth from Consumption and Investment



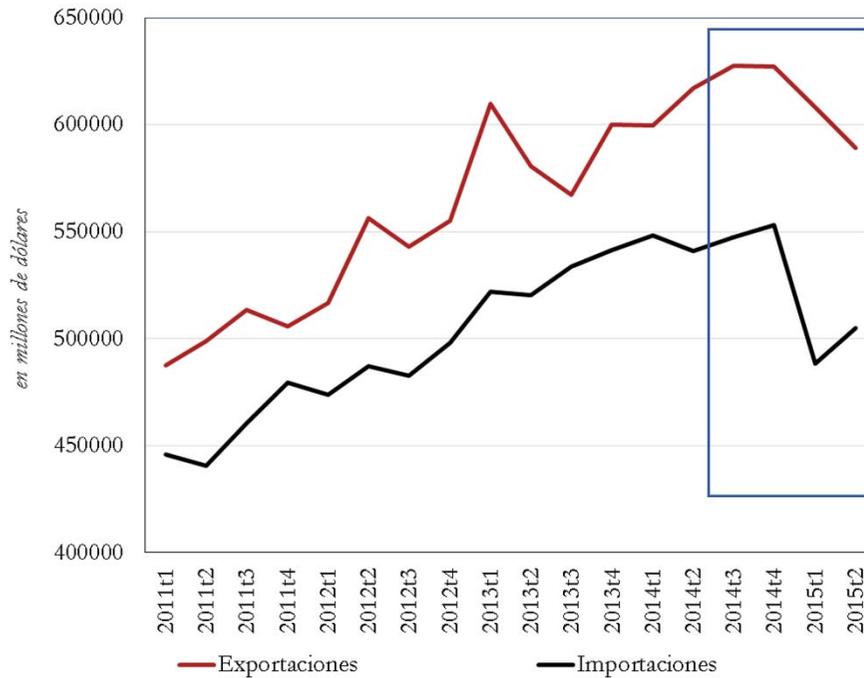
China: Contribution to Growth from Consumption and Investment



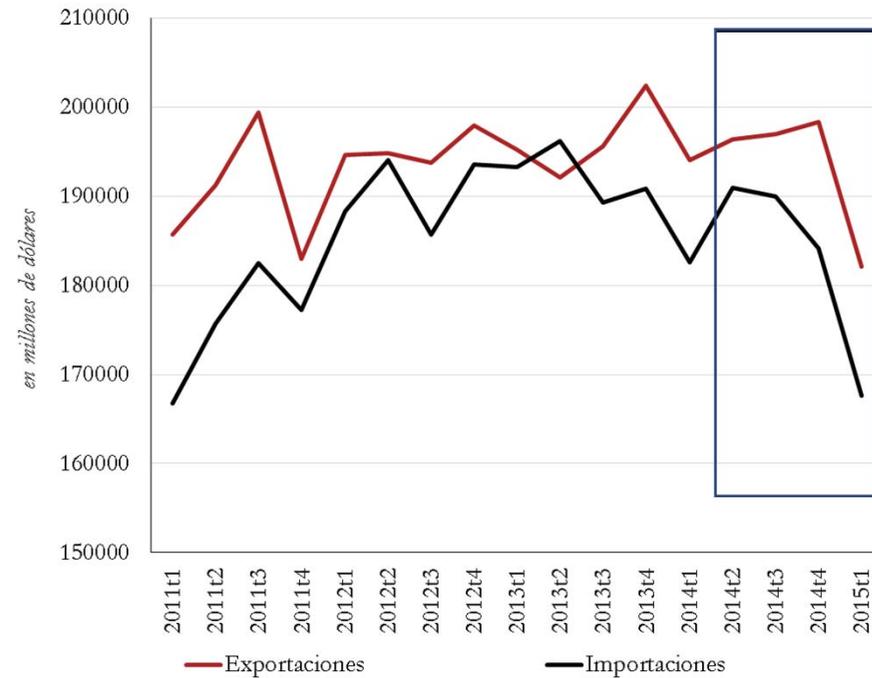


The fall in trade in South East Asia constituted a bad omen – the risk of a global slowdown!

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.