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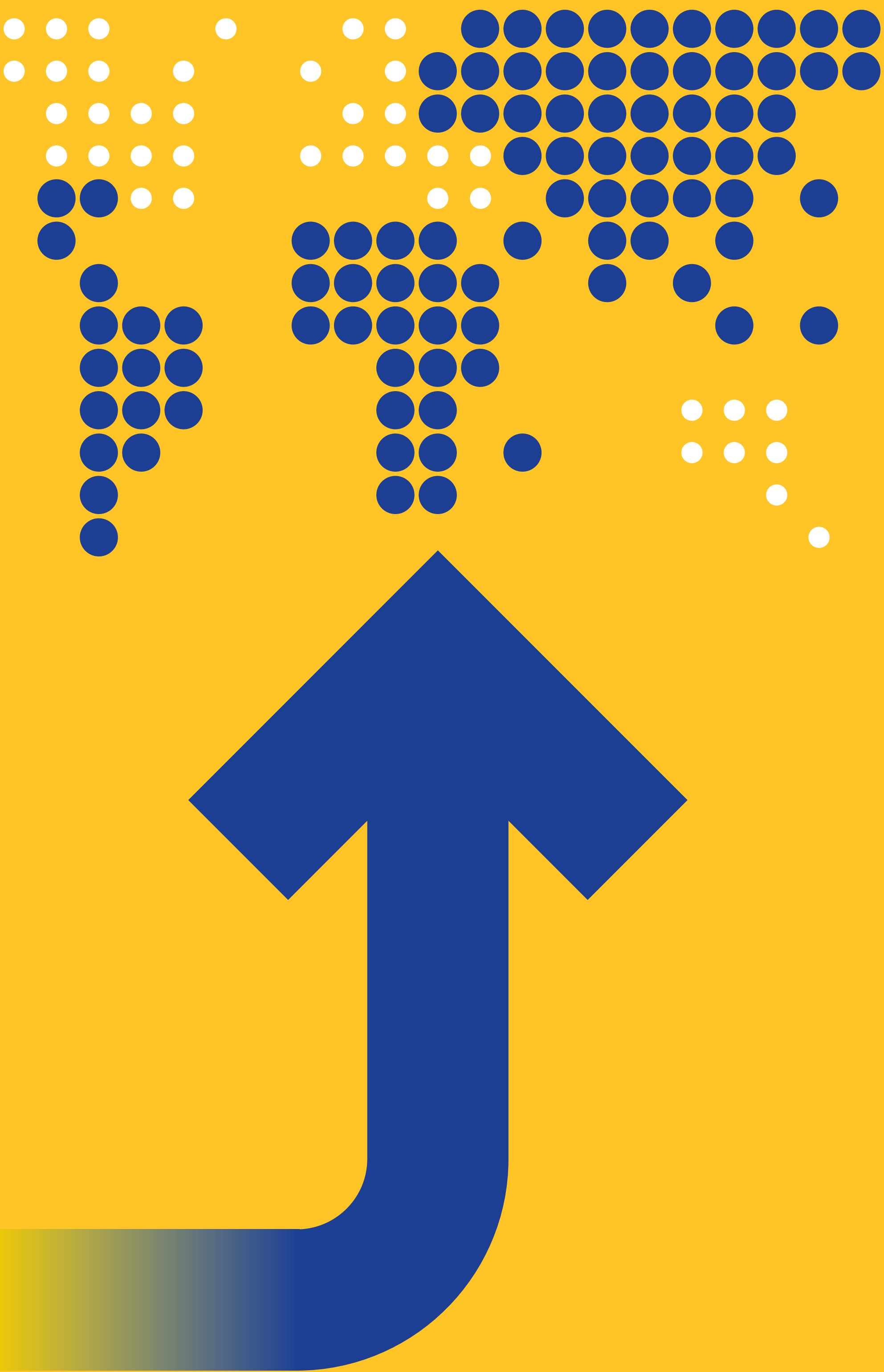

BACKGROUND PAPER

WHERE IS LATIN AMERICA GOING: DEVELOPMENTS AND MEDIUM-TERM PROSPECTS

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Emerging Markets Forum
A nonprofit initiative of the Centennial Group

Where is Latin America Going: Developments and Medium-Term Prospects

Claudio M. Loser

Summary of recent economic developments[1]

Latin America has had repeated crises since the 1970s. It also had the subsequent recoveries and periods of high growth up to the great recession of 2008-09, for many countries, and up to the collapse of commodity prices, in the early part of this decade, for others. The strong economic performance before the recent slowdown that became evident six years ago created a mixture of complacency and over-optimism in the region, both of which were undermined in practice. In recent years, there has been a much weaker performance than other regions of the world, even among advanced economy countries.

- Despite the obvious variations between countries, the region has shown the weakest growth of all subregions of the world since 2014, with an average growth of 0.6% (1% without Venezuela) compared with 3.5% globally, having had above-average growth before the Great Recession, and high but somewhat lower in 2008-13. Even with slow population growth, the recent trend has meant a fall in per capita income of 0.3% a year. This contrasts with expected growth of more than 3 percent in the forward-looking studies prepared by Centennial-Group and the Emerging Market Forum, prepared in 2011 and 2013.[2]
- In contrast to other periods of low growth, recent developments have not been accompanied by a rise in inflation or significant external imbalances-with some exceptions such as Argentina and in a much more dramatic way, Venezuela- even with marked movements in exchange rates. Price stability has not been easy to achieve and has helped maintain financial stability even though circumstances have become more complex internationally.
- Even with these problems, earlier progress has been maintained in terms of reductions in income inequalities, even though some minor poverty setback has emerged, although without changing long-term trends. Poverty and extreme poverty have declined sharply in the last quarter century, thus helping control one of the greatest economic evils in the history of the region. Over the period there was also a noticeable decline in extreme poverty and a reduction in inequalities in many countries, including in the two largest, Brazil and Mexico.
- The region withstood the great economic and financial crisis reasonably well, and certainly better than the overall global economy. The financial systems maintained their relative strength. However, as terms of trade weakened from 2012 onwards, growth fell sharply, and the region has not been able to recover.
- As mentioned, the region's performance has been directly linked to commodity prices, which showed near-continuous growth until 2011-12, and fell subsequently, and with this, the regional rate of growth. This was aggravated by specific circumstances in different countries.
- Even in unfavorable circumstances, countries achieved macroeconomic balance and price stability, which was elusive for so long. Thus, the region finally focused on policies and issues important to its longer-term growth and well-being. This did not take place fully in countries such as Argentina and Venezuela, and for different reasons, Brazil and Mexico.

1. This paper is a shorter version of a similar paper being prepared for the Jose Bonifacio Chair at the Centro Ibero-americano at the Universidade de Sao Paulo. Both papers are based on the work done by Centennial Group and the Forum of Countries over the past decade and a half. Puts up-to-date for the region certain aspects of at least two central books in the process of Analysis regional economies: America Latin America, 2040-Breaking with Complacency; An agenda for resurgence, Kohli, Loser, and Sood editors, Sage 2013, as well as the first (2011) and(2013) English editions of this book; and "The World in 2050: In Search of a More Prosperous and Harmonious Society, Kohli, Camdessus, and Loser Coordinators", New York Economy Social, 2016, and the English version of it published by Oxford University Press, 2015. In this sense, keeps the same ideas from these publications, considering the changes occurred in both the region and in the world since then.
2. See footnote 1.

- Based on the Centennial-growth model scenarios, and in terms of PPP, Latin America can grow at 2.3% per capita in the long run, but the world will grow faster. Income in Latin America may grow slightly relative to advanced countries, but Latin America will slowly lose global relevance. If the region could join the convergers of the world, regional production could triple by 2050, and per capita income could increase by 3.3% a year, slightly above the growth of Emerging Economies, although lower than Asia, at 3.7 percent.

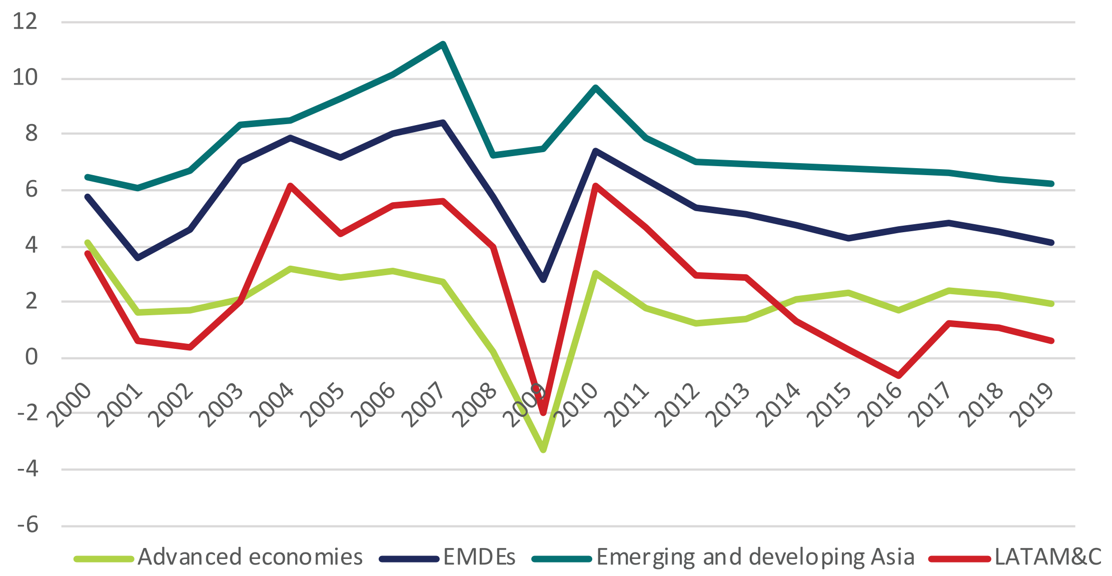
Quantification of performance

Latin America's economy has performed disappointingly in the decade following the great recession of 2008-09, as can be seen in Table 1 and Figure 1.

The sharp decline in the region's growth compared to others clearly came after the global recession. With the fall in terms of trade and despite a major international recovery, there was a sharp slowdown; and from 2014 until now, growth remains lower even than that of advanced economies, even as growth rates declined globally.

Because of these developments, the average per capita income in the region, that had grown strongly until 2014, subsequently fell and four years later continued to

Figure 1: GDP Growth in Latin America and the World



Source: World Economic Outlook(WEO), IMF, 2019, and Centennial-Group

Table 1: Economic indicators: Latin America and the World

	2005-07	2008-2010	2011-13	2014-19
GDP Average Annual Growth Rate				
Latin America	5.15	3.70	3.48	0.65
Advanced Economies	2.89	1.27	1.45	2.09
EMDEs	7.86	6.15	5.62	4.50
GDP per capita (thousands of dollars, PPP 2011)				
Latin America	12.7	13.7	14.5	14.5
Advanced Economies	41.1	41.5	41.9	44.7
EMDEs	7.1	8.3	9.2	10.6
Latin America's share of global GDP (percent)	6.2	7.3	7.9	6.7
GDP per capita ratio AL/ Advanced (percent, PPP)	31.0	33.2	34.6	32.5
GDP per capita ratio AL/Emerging Asia (percent, PPP)	241.6	201.6	181.9	141.3

EMDE: Emerging and Developing Economy
Source: WEO, IMF, 2019, and Centennial-Group

be 1.5 percent below levels observed that year. In these circumstances, in the past fifteen years per capita output of the region has remained at a level equivalent to one third of the income of advanced countries in terms of PPP, and its advantage over Asia has been greatly reduced (Table 1).

While economic growth has been weak, many indicators in Latin America have remained relatively strong, including the Human Development Index, which is in the high level globally, effectively only below the OECD countries and at similar levels, with developing Europe. [3] Per capita income remains reasonably high, the region has benefited from the commodity prices seen in recent decades and many individuals in the region have emerged from extreme poverty in the last decade and a half, aspects discussed below in greater detail.

The performance has varied widely in different countries, reflecting the different circumstances of each of them and the policies that were followed. To some extent, the performance of regional per capita income has reflected the dramatic decline in Venezuela's GDP, and to a lesser extent Argentina's, Brazil's and in Mexico. Table 2 shows in detail the behavior of the countries of the region (excluding some of the Caribbean economies), and the level of per capita income in current terms and in terms of Purchase Power Parity (PPP).

The average growth of countries such as Panama, the Dominican Republic, Bolivia, Paraguay and Peru is noteworthy, as is the weak growth of the largest economies in the region, as mentioned. A very reasonable behavior was observed in other economies in the region, specifically Colombia and Chile. It is also important to note the level of per capita income and in terms of PPP, with high levels for Trinidad and Tobago, Panama, Uruguay and Chile.

Figure 2 shows the behavior of income for the main countries in the region based in 2005. Although they cover only seven countries,[4] they together make up 87% of the region's GDP in 2018, so they can be considered highly representative of the region. Even excluding the countries

3. The Human Development Index was developed by the United Nations Development Programme (UNDP) for its Human Development Reports.

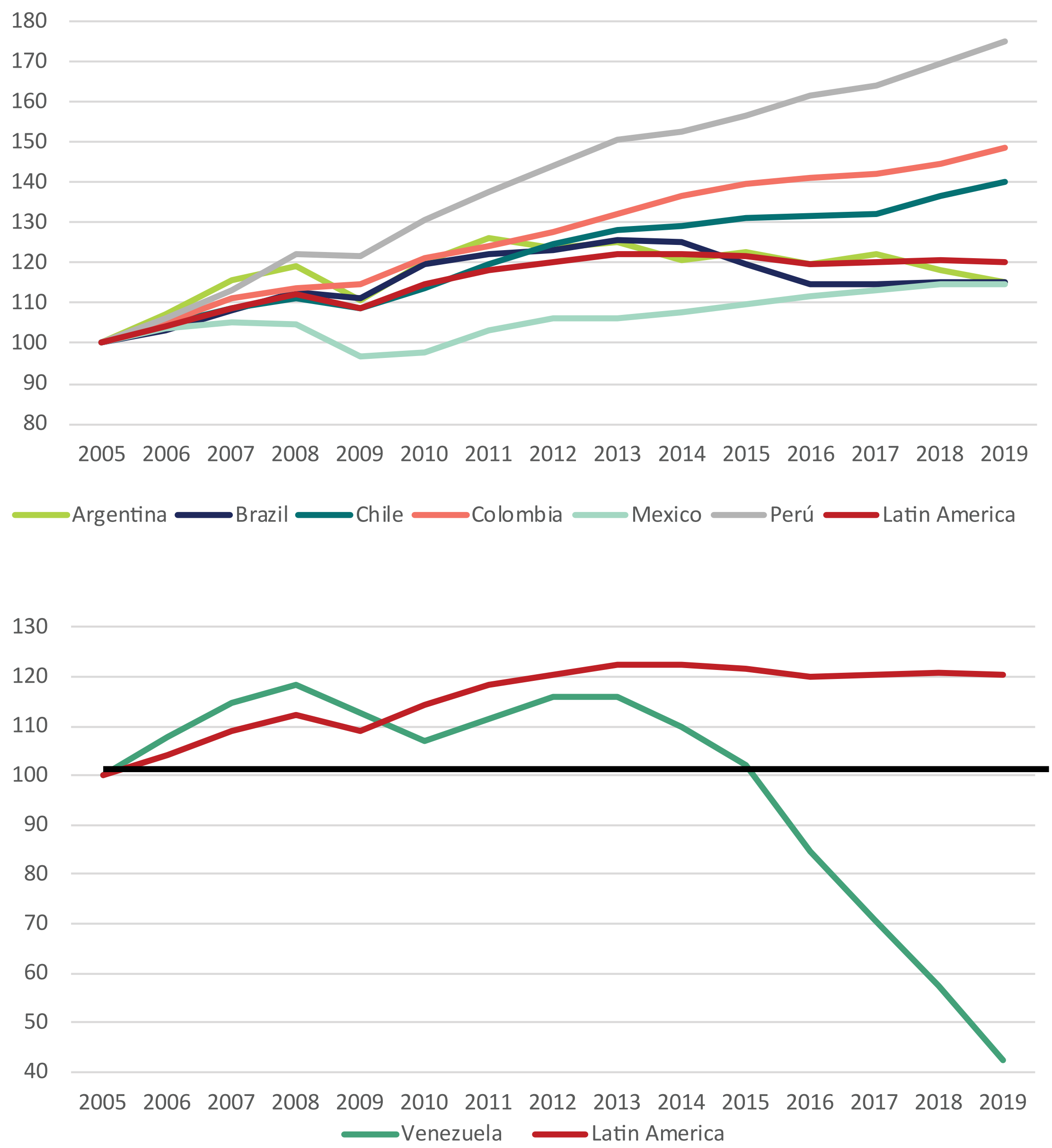
4. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela

Table 2: Latin America-Country rankings for GDP Growth and GDP per capita

GDP Growth Rate			GDP per capita, Current US dollars			GDP per capita, PPP US dollars		
Country	*Growth Rate Av 2010-18*	*Regional Ranking*	*Country*	*GDP PC Us dollars*	*Regional Ranking*	*Country*	*GDP PC PPP US dollars*	*Regional Ranking*
Panama	6.5	1	Barbados	17961	1	T&T	32254	1
DR	5.8	2	Uruguay	17165	2	Chile	25978	2
Bolivia	4.9	3	T&T	16223	3	Panama	25675	3
Paraguay	4.9	4	Chile	16079	4	Uruguay	23274	4
Peru	4.8	5	Panama	15679	5	Mexico	20602	5
Nicaragua	4.1	6	Costa Rica	11744	6	Argentina	20537	6
Guyana	4.0	7	Argentina	11627	7	Barbados	18534	7
Colombia	3.8	8	Mexico	9807	8	DR	18425	8
Costa Rica	3.8	9	Brazil	8968	9	Costa Rica	17559	9
Honduras	3.8	10	DR	7881	10	Brazil	16154	10
Chile	3.6	11	Peru	7002	11	Suriname	15105	11
Uruguay	3.5	12	Colombia	6684	12	Colombia	14943	12
Guatemala	3.4	13	Ecuador	6316	13	Peru	14224	13
Ecuador	3.1	14	Paraguay	5899	14	Paraguay	13395	14
Mexico	3	15	Suriname	5799	15	Ecuador	11718	15
El Salvador	2.5	16	Jamaica	5392	16	Jamaica	9447	16
Belize	2.3	17	Belize	4862	17	Guyana	8519	17
Argentina	1.8	18	Guyana	4649	18	Belize	8501	18
Haiti	1.7	19	Guatemala	4575	19	Guatemala	8436	19
Brazil	1.4	20	El Salvador	3924	20	El Salvador	8041	20
Suriname	1.3	21	Bolivia	3682	21	Bolivia	7477	21
Jamaica	0.5	22	Venezuela	3374	22	Nicaragua	5683	22
Barbados	-0.1	23	Honduras	2521	23	Honduras	5212	23
T&T	-0.3	24	Nicaragua	2108	24	Haiti	1864	24
Venezuela	-5.7	25	Haiti	857	25	Venezuela	n/a	25

Source: WEO, IMF, 2019, and Centennial-Group

Figure 2: Per capita income of Latin America and Selected Countries



Source: WEO, IMF, 2019, and Centennial-Group

noted above, the contrast in growth in Colombia and Peru, and to a lesser extent Chile, with Argentina, Brazil, and Mexico is remarkable. Venezuela's dramatic drop in GDP should be considered a totally different story within the region.

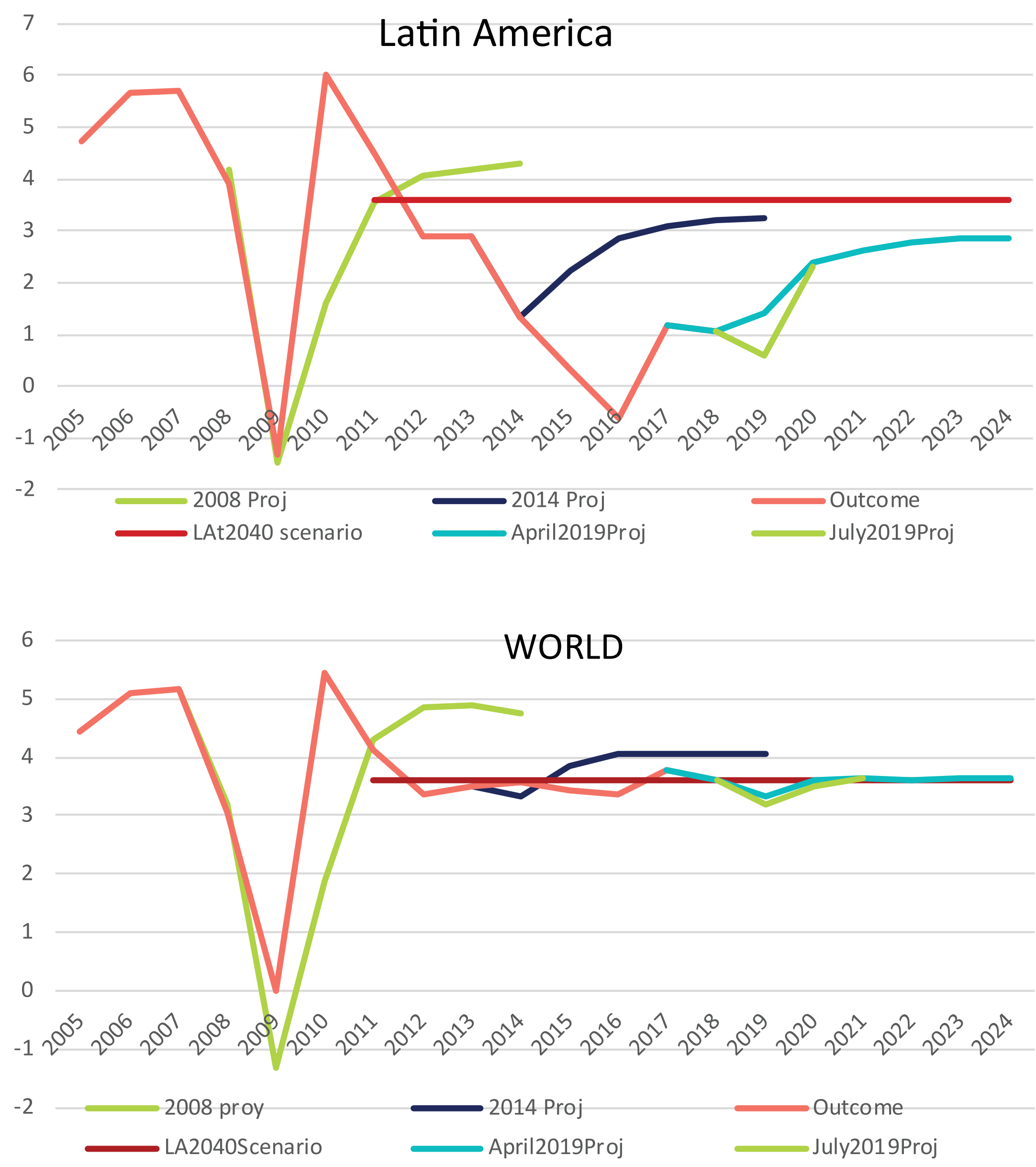
In addition to the region's past weak performance, growth prospects have been almost systematically over-estimated, when calculated with a medium-term vision. Thus, the IMF's World Economic Outlook, probably the most comprehensive international exercise on the global growth outlook, has shown substantial differences between projections and actuals for the region, compared to the world, particularly from 2013-14 onward (Figure 3). Overestimation also occurred for projections in "Latin America 2040", [5] which predicted an average growth of 3.1 percent for the period 2010-40, well above last decade's results.

Economic performance and terms of trade

It is worth reemphasizing the strong influence of terms-of-trade movements on GDP growth rate. In general, there is a strong correlation of commodity price movements with GDP growth. This reflects the region's high dependence,

5. America Latin America, 2040- Breaking with Complacency; An agenda for resurgence

Figure 3: Projected and Actual GDP Growth



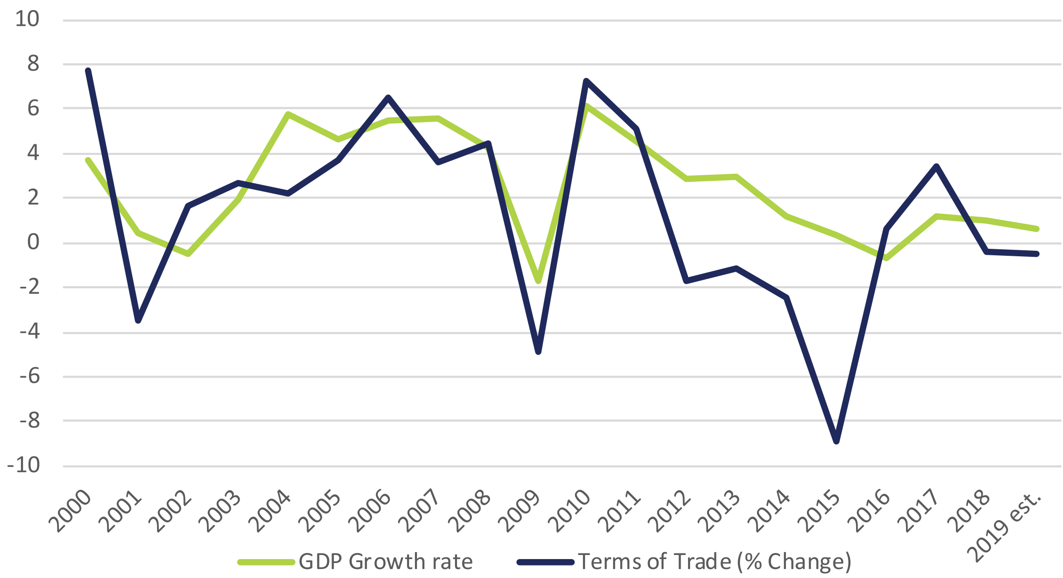
Source: WEO, IMF, 2019, and Centennial-Group

with a few exceptions, on its traditional exports. [6] Figure 4 shows this correlation, which has affected Latin America almost permanently. This goes far beyond the domestic views in the region at the time, which attributed high growth rates to the policies pursued at the time and blaming many recessions on mistakes to opposition governments. In fact, policy errors can be summed up into two categories: a lack of effectiveness in countercyclical policies; and poor economic integration into value-added chains that perpetuate dependence on these products. In this plight, the region was accompanied by many African countries and the main oil producers of the Middle East.

Gross Investment and National Savings have also been directly linked to the level of the terms of trade (Figure 5). Gross investment has been relatively low, with an average level of 20. 5 percent of GDP in the 20 years through 2019. Likewise, National Savings has shown an average level of 19. 2 percent of GDP in that period. These levels are well below the emerging-country average (30 and 31 per cent respectively for investment and savings) and below the levels of advanced economies (22 per cent for investment and savings), and with similar levels only in Sub-Saharan

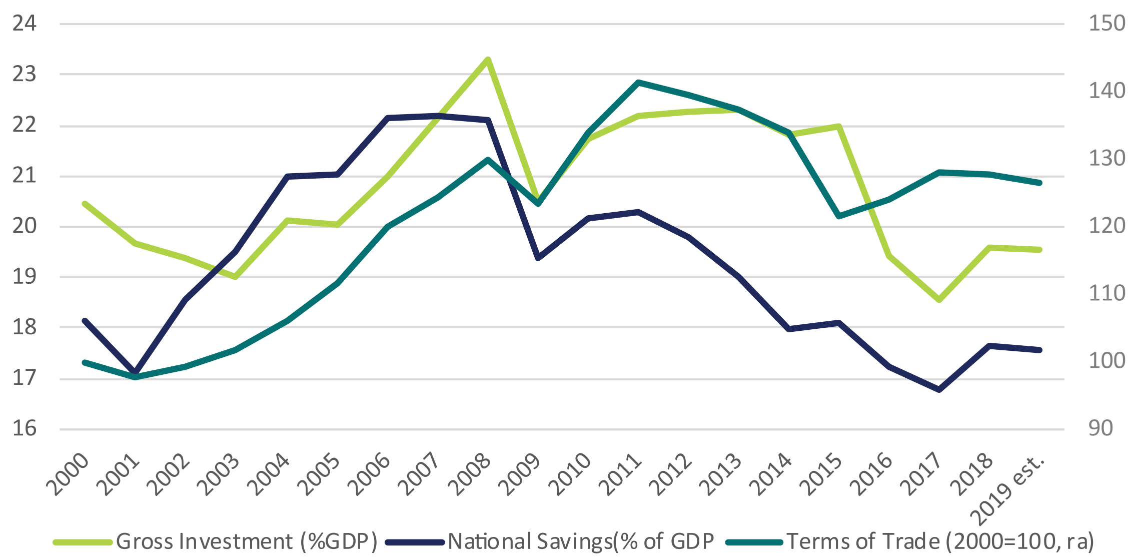
6. Claudio Loser y Ieva Vilkelyte: The Impact of Commodity Terms of trade in "Africa: Curse, Blessing or Manageable Reality"

Figure 4: Latin America Growth and Terms of trade (percentage change)



Source: Centennial Group, ECLAC and IMF

Figure 5: Latin America-Savings, Investment and terms of Trade



Source: Centennial Group, ECLAC and IMF

Africa. This partly explains the region's low recent growth rate and unfavorable outlook. [7]

Productivity and its performance effects

A crucial factor in Latin America's performance has been productivity, as reflected by total factor productivity (TFP), the growth factor not explained by increases in capital or employment. The explanatory components of economic growth in Latin America and other selected regions are presented in Table 3. Over the period 2000-18, Latin America's GDP growth has been well below that of EMDEs countries, albeit slightly higher than that of advanced countries. However, the components of growth are very different. While Latin America has recorded relatively strong growth rates in capital and employment, given its average growth rate, its TFP performance has been low.

TFP in Latin America has remained virtually stagnant in recent decades (Figure 6), with a small increase at the

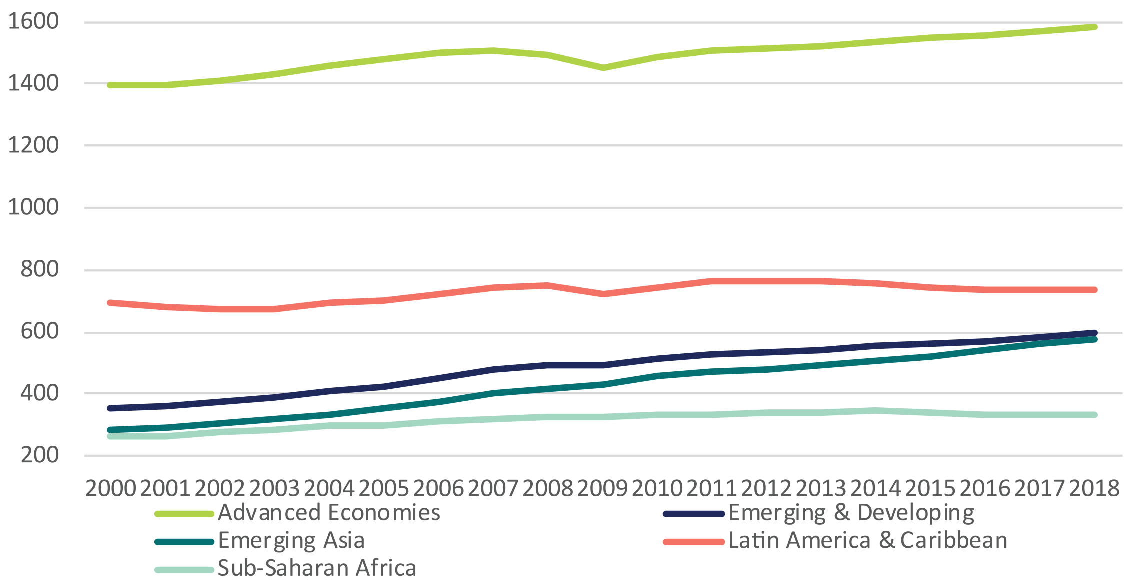
7. Claudio Loser y Ieva Vilkelyte: The Impact of Commodity Terms of trade in "Africa: Curse, Blessing or Manageable Reality"

Table 3: GDP and Factor Growth (Annual Average 2000-18)

	TFP	Capital	Employment	GDP
Advanced Economies	0.72	2.14	0.63	1.85
EMDEs	2.93	5.36	1.21	5.58
Emerging Asia	4.00	8.06	0.88	7.36
Latin America and Caribbean	0.33	2.93	1.72	2.46
Sub-Saharan Africa	1.40	4.28	2.78	4.72

Source: Centennial Group

Figure 6: Latin America and Comparators -Total Factor Productivity Indices



Source: Centennial Group

turn of the century but a subsequent drop that led to a narrowing in the difference in productivity between the region and emerging economies. TFP in Latin America in 2000 was twice as high as in EMDES countries, while in 2018 Emerging economies had a productivity equivalent to 80 per cent percent of the region. But even these numbers reflect only partly the strong growth in Asia, where relative distances were cut further.

The poor performance of TFP in the region reflects a variety of factors. First and foremost, low competition, both domestic and international, leads to limited incentives to increase productivity and competitiveness. This may also explain the low level of investment in the region compared to other parts of the world. The new additions of capital, in themselves, do not necessarily increase the TFP. However, the technology incorporated in new, higher-quality investments and the corresponding improvements in human capital will lead to increases in productivity and growth. As a result, low investment has resulted in a slower innovation.

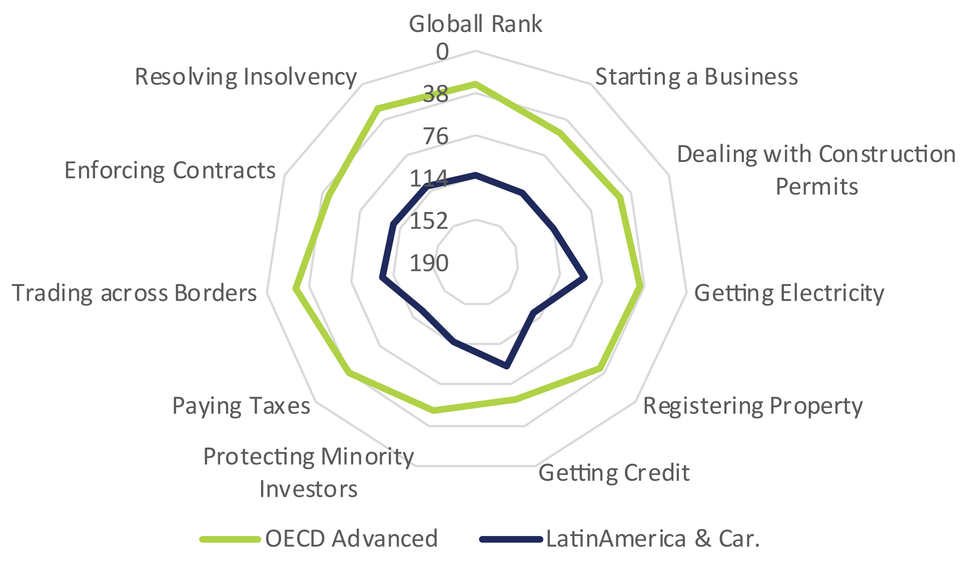
All these factors have contributed to the region's limited competitiveness, as reflected in the Ease of Doing Business indices prepared by the World Bank. Figure 7 shows the average range differences for Latin America and advanced countries for different aspects of the Index. The region is well below the most advanced countries in virtually all areas.[8]

Macroeconomic management in the region

Macroeconomic management in the region has been prudent in recent decades. Even when economic activity has performed disappointingly, the general path has been reasonable. As a result, inflation has remained relatively stable, although not comparable to global levels. What is true is that inflation— Latin America's great enemy until the 1990s, is no longer the threat that was at that time. Moreover, inflation data are heavily influenced by Venezuela's hyperinflation and to Argentina, which had average inflation of more than 23 per cent in 2003-19. If these two countries are not included, the average inflation rate in the

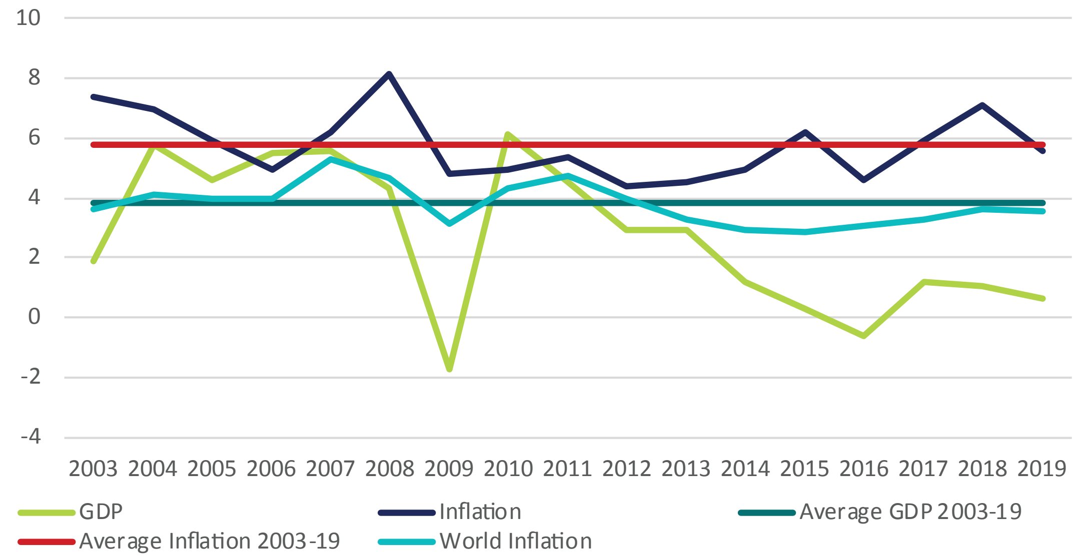
8. In Figure 7, the order is determined by the relative position of the countries and regions. The best performance is rated as 1, and the worst 190 among the total countries included. The further outward the observation in the Figure, the better the position and vice versa.

Figure 7: Ease of Doing Business- OECD-Latin America



Source: World Bank Doing Business Reports

Figure 8: GDP growth and Inflation (2003-19)



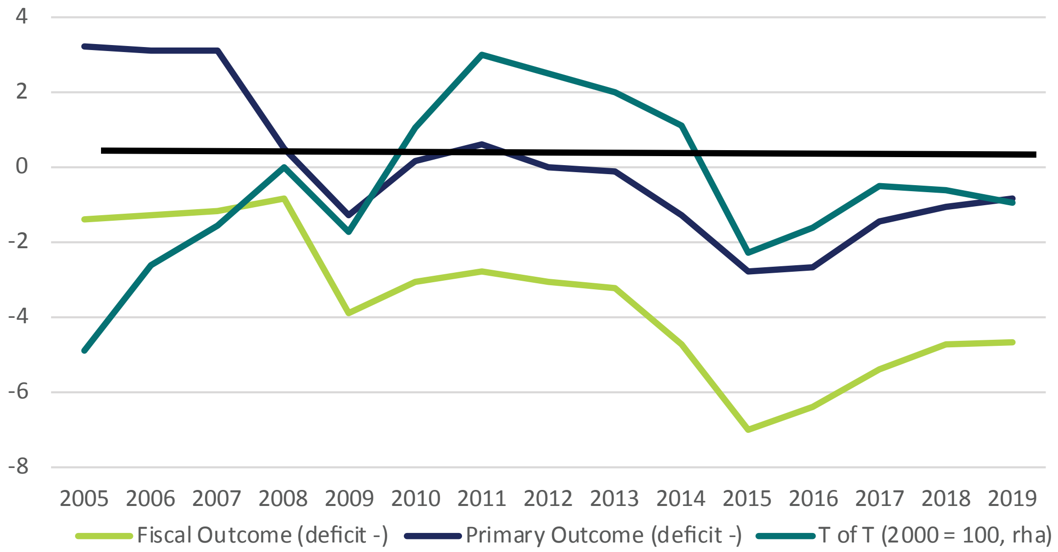
Source: WEO, IMF, 2019, and Centennial-Group

region in this period is 4.6%, just under 1 percentage point a year per above global inflation. Figure 8 presents growth and inflation data for the region and globally for the period 2003-19.

Both monetary and fiscal policy have moved within a relatively narrow range. However, they have been subject to considerable pressure. Fiscal policy has shown a tendency to deteriorate in line with terms of trade movements. Specifically, during the early years of the commodity boom, fiscal accounts showed small deficits- slightly above 1% of GDP, reflecting primary surpluses (excluding interests), in line with strengthening commodity prices. This situation was reversed in 2008-09, when the fiscal deficit increased, and the primary result turned negative, as shown by Figure 9, in response to the great recession.

While for many countries the terms of trade improved again and reached record levels by 2012, the fiscal accounts did not reflect fully these changes, in part because the authorities maintained or increased spending levels. Subsequently, as prices fell, public finances also

Figure 9: Latin America-Fiscal Position and Terms of trade



Source: Centennial Group

deteriorated. Currently, the fiscal position remains strongly linked to the international situation, with a trend towards improvement but with deficits of more than 4% of GDP, compared to levels of just over 1 percent in the mid-2000s. However, the results are strongly influenced by Venezuela, Brazil, and until recently Argentina. The rest of the countries tend to have deficits below 3% of GDP, although there are primary deficits in countries Argentina, Brazil, Chile, Peru and (again to a much larger extent), Venezuela.

Because of these fiscal imbalances in a context of low growth, the level of borrowing has increased, albeit moderately for most countries. For the region, after debt remained at less than 50% of GDP during 2009 - 2013, the level of public debt increased to 68 percent in 2018. The countries with the highest increase in 2013-18 were Venezuela with more than 100 percentage points of debt growth[9], Argentina with an increase of 45 percentage points, reaching a level of 86 percent (and at even higher levels in 2019), Ecuador with an increase of 30 points to 46 per cent, Brazil with an increase of 28 points to a level of almost 90 percent. Other countries have seen smaller increases, but overall the trend has been to increase the debt burden over the past decade. Although this is in line with developments in other regions, this trend remains worrying, even with lower interest rates.

9. The figures for Venezuela are unreliable, because of the lack of data and the very high levels of inflation that the country suffers.

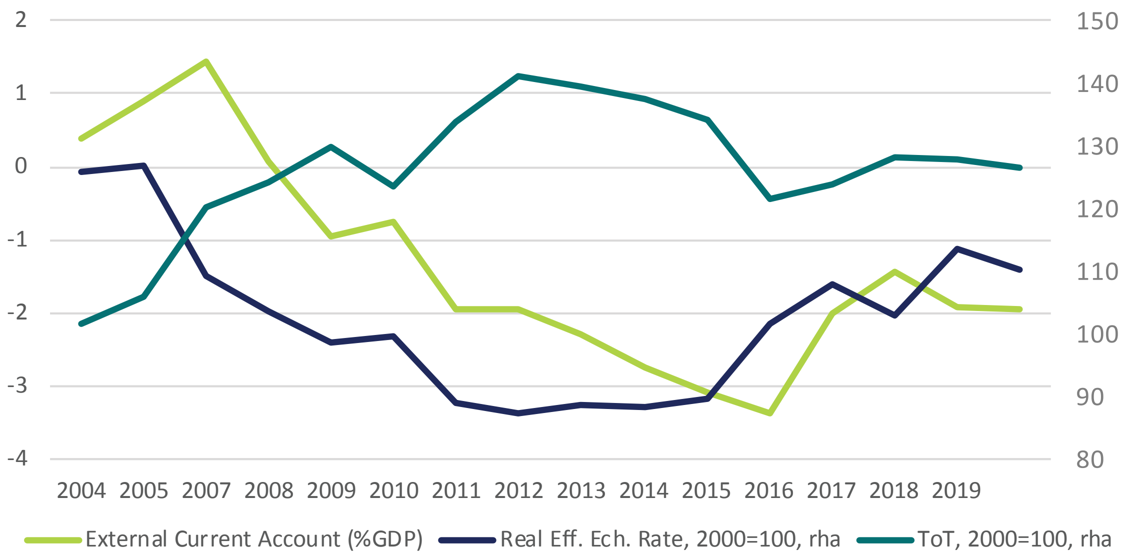
Balance of payments and exchange rates

To analyze external accounts, three related variables must be analyzed: the terms of trade, the external current account and the effective exchange rate for the region. The high correlation between variables is not surprising. As emphasized above, Latin America is highly dependent on the level of global activity, specifically terms of trade. Fundamentally, increases in terms of trade have resulted in an appreciation of the effective real exchange rate[10], and conversely when there has been a fall in prices. Increases in commodity prices have initially led to improvements in the external current account. However, prolonged increases in terms of trade tend not to be reflected in the external current account. Because of the wealth effect for producers and the impact on the revenues, there are significant increases in spending, both consumption and investment. Because there has been a perception that the gains were permanent, which in practice has not been the case. However, when the terms of trade weaken on a sustained basis there is an adjustment in the external current account and the real exchange rate (Figure 10).

One aspect of interest in the development of the region has been the reduction of the importance of international

10. The effective real exchange rate is estimated as a weighted average of the exchange rates of each country's major trading partners, deflated by price movements in these countries. There are different formulations, but the most common is the one that uses the consumer price index in each country as a deflator. In addition, values are defined according to Latin American practices, where an increase in the index reflects a depreciation and conversely. In other contexts, such as the index produced by Bruegel in the European Union or the IMF, depreciation is defined as a fall in the exchange rate.

Figure 10: Latin America-Current Account, Real Effective Exchange Rate and Terms of Trade



Source: IMF WEO, CEPALSTAT, and Centennial Group

trade relative to GDP. In the period 2006-2017 [11] exports have tended to fall as a share of GDP. Exports of goods and services fell from the equivalent of 24% of GDP in 2006 to 21% in 2014, with a subsequent small increase. In turn, imports remained approximately stable, except for the period 2009-10, where there was a fall in line with the recession at that time. Exports in dollar terms have been strongly correlated with movements in terms of trade, but as a share of GDP the effect is smaller. This lower correlation is largely due to the strong real appreciation of Latin American currencies due to higher international prices, and that offsets in part of the impact of these increases.

Another notable aspect is that intra-regional trade share has shown a downward trend. Intraregional exports fell from about 20% of total exports in 2006-08 to about 14% in 2016-17, suggesting the region has become less integrated and more dependent on outside movements.

As to the bottom line, international reserves of the countries of the region now account for more than 16% of GDP, or almost a year of imports. However, these reserves are partly the counterpart of foreign loans, and therefore cannot be counted on in the same way as if they were a strict result of current account gains. Moreover, as prices fell, international reserves fell, and only recently have they recovered. This indicates that despite exchange rate flexibility and external current account improvements, the region is not fully prepared for a larger external crisis.

Social aspects of growth: Poverty and inequality[12]

Poverty declined sharply in the quarter century until 2014, after years of difficulties associated with the so-called lost decade of the 1980s, a period of adjustment and structural reforms and as the region became more integrated to the world economy. This was coupled with the improvement in international conditions from the beginning of the century, as discussed.

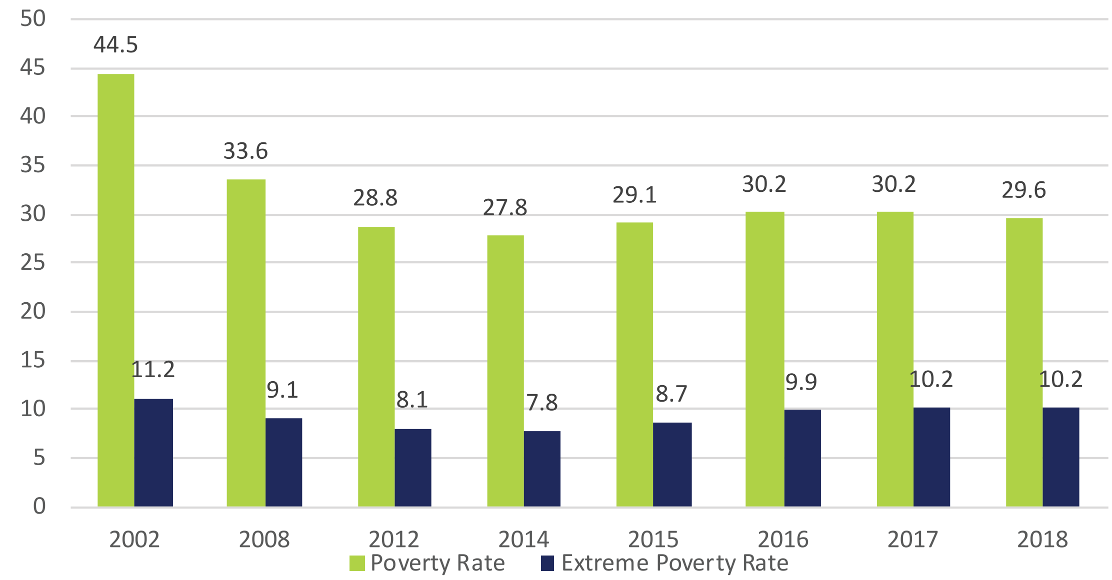
However, the sharp drop in terms of trade interrupted the process (Figure 11). ECLAC data for 2018 show the impact of Venezuela's economic debacle, and to a lesser extent the economic crises Argentina and Brazil, resulted in an increase of about 2 percentage points from 2014, both in the levels of poverty and of extreme poverty, as can be seen in Figure 11. However, this reduction does not affect the trend fundamentally. In 1990, total poverty covered nearly 50 percent of the population, compared to 30 percent in recent years. In turn, extreme poverty fell to less than half, from 23 percent in 1990 to 11 percent today. The 2019 numbers are likely to be somewhat worse, but within the trends of recent decades.

The increase in the percentage of poor people in the region in recent years hides differing changes for different countries. According to the estimates of the ECLAC, of the 15 countries with recent information (mostly through 2017) in the five years to 2016-17, poverty and extreme poverty

11. At the time of preparation of this paper, the complete balance of payments information for the region, only extended until 2017, although for many countries there is data until 2018. The trend does not change significantly with data for that year.

12. Based on the Social Panorama Report of Latin America 2018, published by the United Nations Economic Commission for Latin America(ECLAC), which holds the best data on poverty for the region.

Figure 11: Poverty and Extreme Poverty Rates



Notes: (a) Weighted average of 18 Latin American countries. (b) The 2018 data corresponds to an estimate.
Source: ECLAC, based on Household Survey Data Bank (BADEHOG).

were reduced in 14 of them. Only Brazil shows an increase in poverty. Guatemala and Venezuela have older data but show significant increases in their indices.

The other big topic of discussion is the distribution of income. Data indicate that the region still has the highest GINI index levels globally[13]. Income distribution is particularly concentrated in countries such as Brazil, Colombia, Costa Rica, Guatemala, Mexico, Panama and Paraguay according to official figures. The data indicate the same position at both the market income and net income (tax and subsidy-adjusted)[14] level. However, global developments indicate a global increase in inequality in both advanced and emerging countries. Latin America, in turn, has shown a drop in the net GINI index of 5 percentage points, while there has been an increase of 5 points in EMDEs countries and two percentage points between advanced countries. This has sharply reduced differences with EMDEs in general, although advanced countries show a much better position at the net level, even though GINI levels are not so different at the market level (Figure 12). This shows that, while there is a lot of work ahead, the region has been effective in reducing income gaps. Politically, however, the situation is presented as if inequalities are increasing, which is incorrect if assessed according to GINI indicators.

Medium- and long-term outlook

This section presents projections up to 2050, based on a global growth model that has been widely used by the Centennial Group. As a long-term model, the results and projections are stylized, and they are not intended to predict the future exactly, but rather to provide a context for policy-making and reform. [15]

Centennial Group's long-term model explores alternative scenarios for the global economy, with a focus on the outlook for EMDEs. Based on these models and projecting through 2050, a central scenario for the global economy suggests that there will be a sharp increase in the participation of EMDEs in World GDP. The global economy can grow at 3.2 percent, and per-capita income could grow at 2.5 percent a year. Thus, per capita income on a PPP basis, would increase significantly during the period (Figure 13 and Table 4).

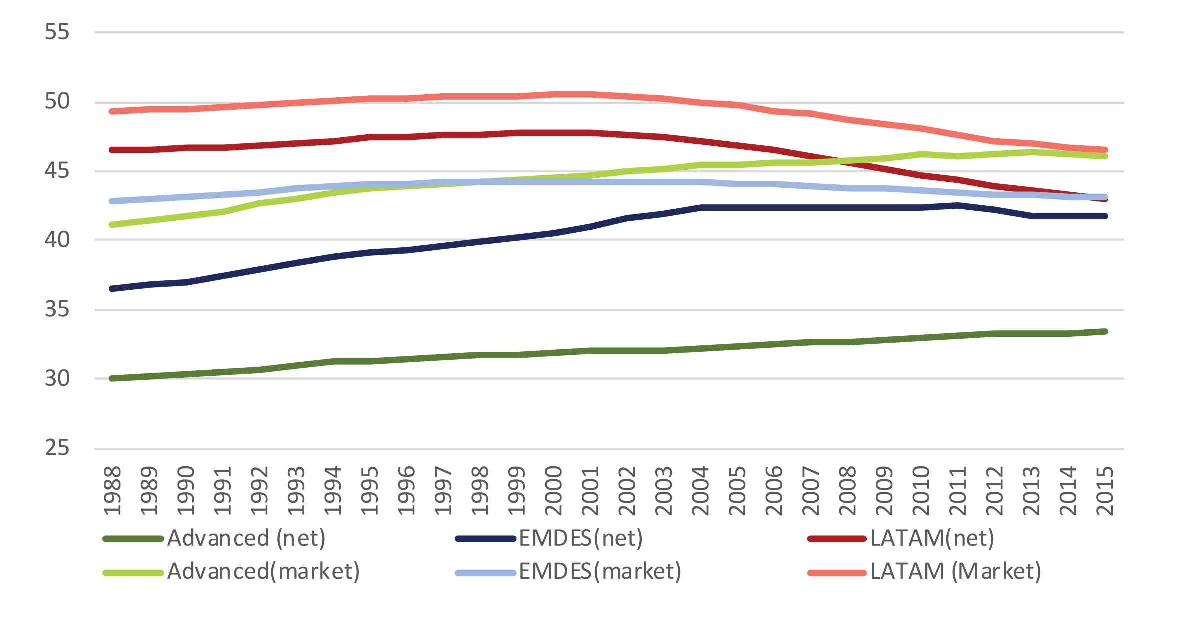
Latin America in an existing policy scenario

How does Latin America perform in the current policy scenario? In terms of PPP, Latin America can grow at 2.3% per capita in the long run, but the world will grow faster. Income in Latin America may grow slightly relative to advanced countries, but Latin America will slowly lose global relevance. This is disappointing, as Latin America

13. The Gini Index has a range of 0 to 1. The smaller the number, the more equitable the distribution of income, and the inversely for higher values.
14. Market-level indices are calculated with earned income received by individuals. In turn, the net concept is measured after including all types of taxes (particularly income and VAT) and subsidies, and reflects the effective income received by individuals. In general, the GINI coefficient is expected to be lower (more equitable) in the net concept, which is confirmed by the data.

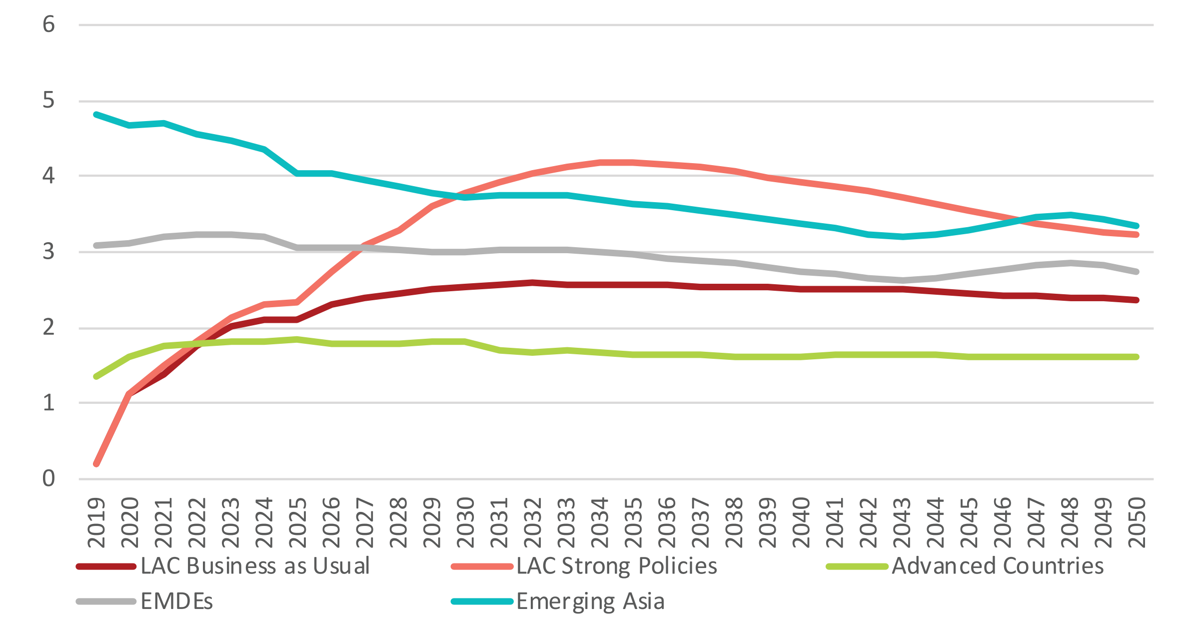
15. . Kohli, Szyf, & Arnold (2012)

Figure 12: GINI Coefficient (unweighted))



Source: Bruegel data sets, 2019

Figure 13: Per capita GDP Growth Rates (PPP)



Source: Centennial Group

Table 4: Comparative GDP PPP Per Capita Income (constant 2015)

	2018	2030	2040	2050
LAC - Base	15,332	19,230	24,764	31,539
LAC - Optimist	15,332	20,207	30,121	42,580
Advanced Economies	49,572	61,065	71,966	84,582
EMDEs	11,348	16,386	21,879	28,675
Emerging Asia	11,402	18,789	26,782	37,199
Sub-Saharan Africa	3,861	4,497	5,913	7,956
Middle East and North Africa	20,075	23,350	27,710	32,652

Source: Centennial Group

could in principle benefit from a demographic dividend in the coming years: its workforce will grow much faster than its population over the next thirty years. As noted, Table 4 shows a trajectory of key variables for Latin America and the rest of the world within the framework of this current policy scenario, and for the convergence of the region. The current policy scenario shows what would happen if the region continued the path of relatively slow TFP growth and relatively low capital investment.

The convergence scenario in Latin America

If Latin American economies could join the "converging" club, radical changes could be achieved. Clearly, the convergence scenario depends to a large extent on the performance of its major economies, as well as the crucial issue of taking advantage of the delay in innovation and investment to increase growth. It should be remembered that the convergence scenario simply attributes to Latin American economies the same rate of growth to achieve the technological level of other convergent countries. This means that this is an estimate of what could be considered as the potential growth of these countries. Combined over thirty years, the impact is significant. Regional production could triple by 2050, and per capita income could increase by 3.3% a year, slightly above the growth of EMDEs, although lower than Asia, at 3.7 percent.

While the concept of convergence is easy to grasp, its design and implementation are not. The economic experience of Latin America indicates this clearly. The Doing Business indicators as well as other sources of information, like the Global Competitiveness report, of the World Economic Forum[16], suggests that Latin America needs to make significant reforms of its economic structure. Progress has been noteworthy regarding macroeconomic management, with only a few exceptions. However, for economic growth to resume beyond the unlikely event of sustained increases in commodity prices, Latin America will need to strengthen its institutions, to make them reliable and better prepared for a changing world environment. This includes an effective government, focusing on the principles of Public Financial Management and good governance, and a well-defined and applied legislative body, with simplified procedures.

Policies will need to be focused on key areas as Infrastructure and Education and Skills, were the region lags many others. In addition, the governments of Latin America will need to break domestic monopolies be them private or public. Also, the region will need to open to foreign competition, not only to deal with the previous problem, but to help integrate the different economies, many of them highly protected, to make use of the international value chains and use new technologies to the maximum. This needs to be accompanied by reforms that can help reduce informality and open labor markets, which are also subject to significant and costly constraints. Issues of poverty and inclusion will also need to be dealt more effectively, mainly based on improvements in human capital. To finish this far-from-exhaustive list, important reforms will need to be introduced to the financial system, to help a larger sector of the business community to have access to have resources for investment and growth.

Final comments

The path forward in Latin America will not be easy. The challenges of incorporating structural reforms will require a major effort for most countries in the region; the main task in the short term will be to maintain macroeconomic prudence. The annual growth estimates for the scenarios presented in this section are not incredibly ambitious, with 2.5% per capita growth for the period 2015-50 in the central scenario, for a total increase of 134 percent, in line with the average for the World. Unless a significant effort is made in the coming years at the macro, structural and institutional levels, the growth rate could easily fall to 1.6 percent a year, corresponding to a pessimistic scenario. Inconsistent policies (not a monopoly of the region) could affect performance. This could certainly influence the struggle for inclusion and anti-poverty, and it can put the region at a disadvantage in terms of improving the well-being of the general population. Some politicians may expect a change in market trends, but given the current circumstances, it is a risky assumption. The safest way is to continue work focused on stability, reform and regional and international integration, within a modern institutional framework and within the rule of law. Besides, it must start now.

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