



LATIN AMERICA'S ECONOMY IN A GLOBALIZED WORLD

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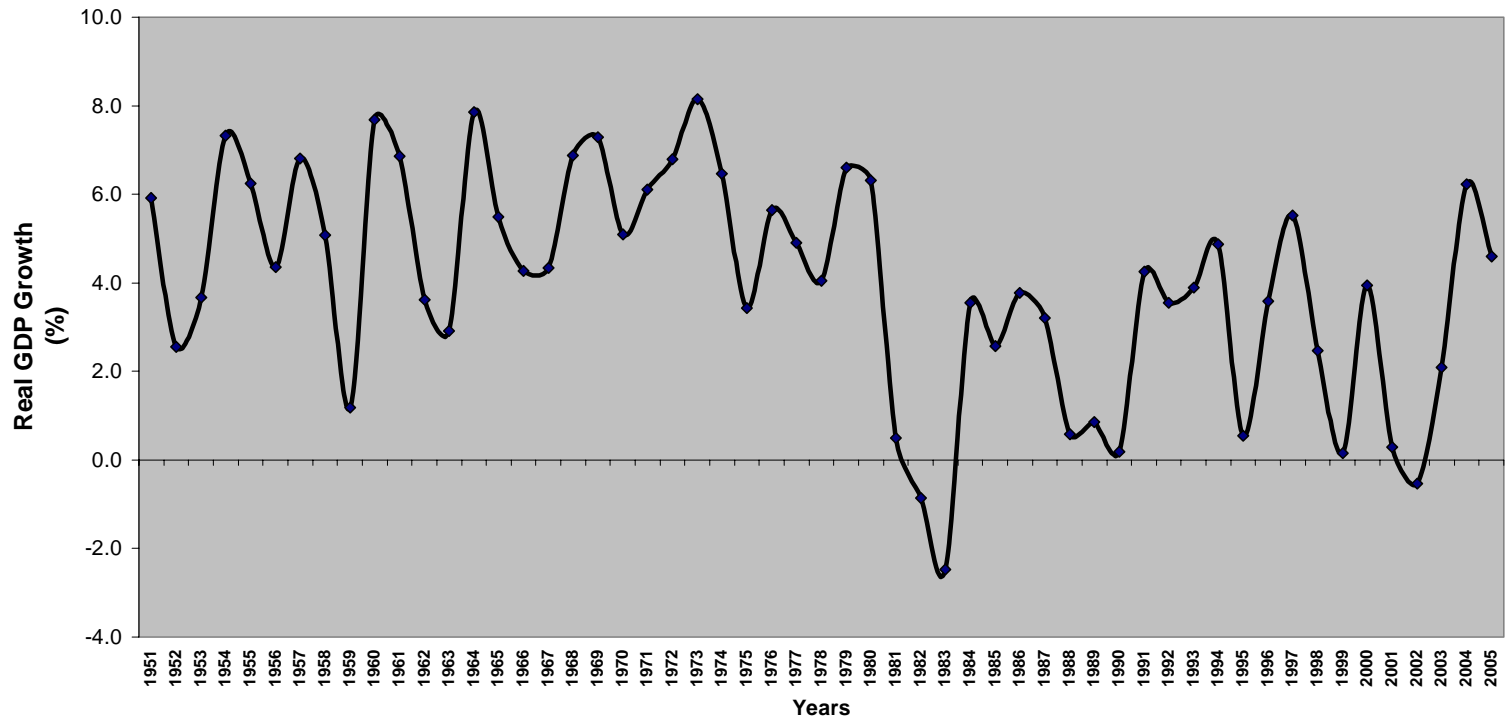


concepts

- Globalization has to do with the movement across borders of persons, goods, capital and technology.
- For better or worse, these movements of factors of production contribute to an increasingly interdependent and integrated world economy.
- After the end of the Cold War there is only one economy and only one economics

growth performance

Latin America
Real GDP Growth
(1951-2005)





growth

- The main characteristic of Latin America's contemporary economic growth is volatility, ups and downs.
- Integration to the world economy has benefits and it has costs.
- Since the 80's Latin American growth becomes more volatile.



the 80's

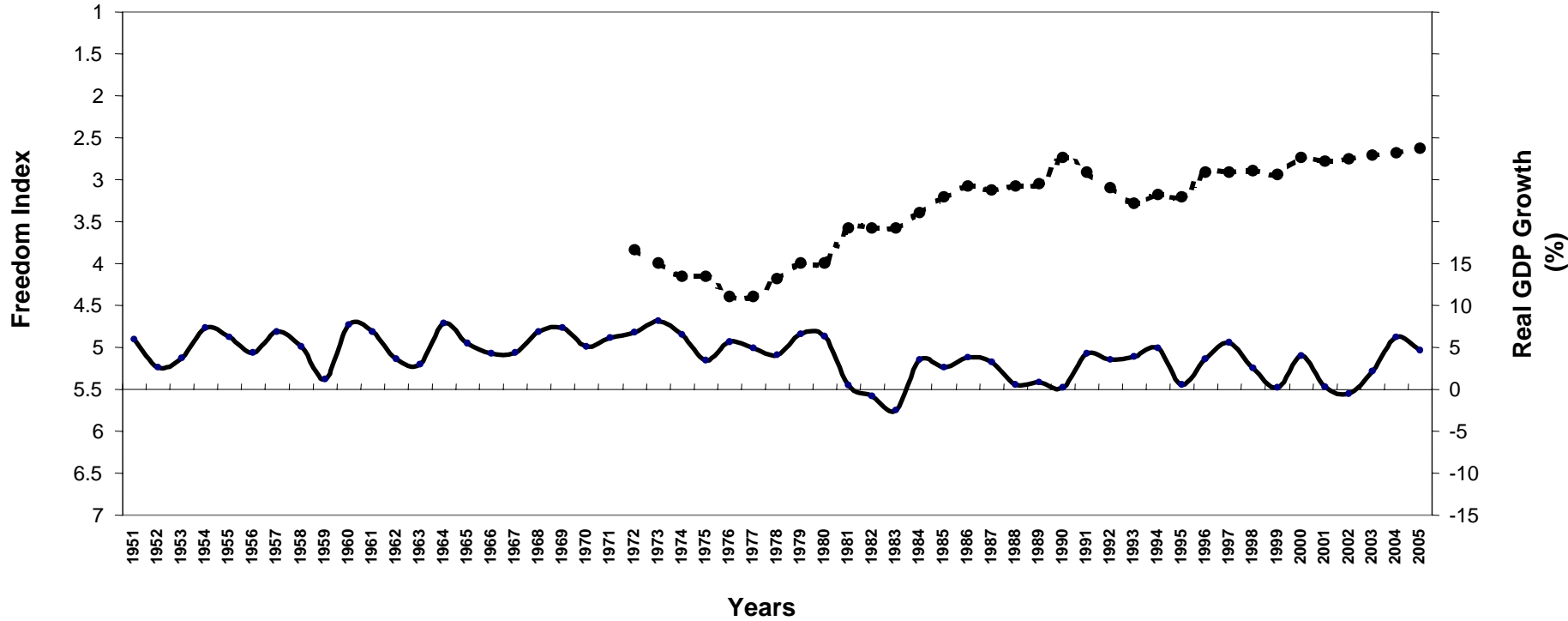
- A lost decade for Latin American development, negative growth, high inflation, debt renegotiations, increased poverty and setback in social indicators.
- However, with a decisive turn toward democracy and civilian regimes.
- Contrast with the turn toward dictatorship during the Great Depression of the 30's

Latin America

Real GDP Growth and Freedom Index (1951-2005)

"Free" (Score 1-2.5)
 "Partially Free" (Score 3-5)
 "Not Free" (Score 5.5-7)

—●— GDP (right axis)
 -●- Freedom Index (left axis)





growth is back

- In 2004, growth returned to LAC, at a surprising average annual rate of almost 5%; 4.5% in 05; 5.6% in 06 and 07, highest rate in 25 years. Projected by the IMF at 4.3% in 2008, 3.6% in 09.(Except Haiti).
- Therefore, per capita income has increased in the last two years at an average rate of 2 per cent, with declining poverty and unemployment.
- Second time in 20 years that the major economies (Arg, Brazil, Chile, Col, Mex & Ven) are growing simultaneously. Last time in 1997.
- Inflation is down from 6.1 % in 05 to 4.8% in 06, 6% in 07, with fiscal balances, current accounts in surplus and plentiful foreign exchange reserves.
- Very favorable external environment with both imports and exports growing 20% in 06 (10% in real terms) and higher net transfers of US \$9 billion.



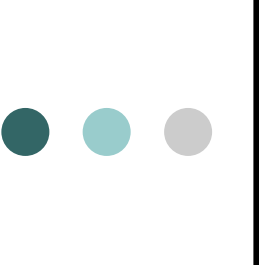
poverty

- **Since 2002 there has been a reduction in the absolute number of the poor and indigent, poverty and indigence rates continued to fall in 2006 and now stand at 36.5% and 13.4%, from 48.3 and 22.5% in 1990.**
- **Nevertheless, there are still 194 million poor, including 71 million living in extreme poverty. Both numbers are higher than the figures for 1980.**
- **Source: ECLAC, Social Panorama of Latin America, 2007. Estimate for 19 countries.**



risks

- **Summer 07, housing slump in the US spilled over into the high risk mortgage and financial markets, becoming a credit squeeze.**
- **By the end of 2007, economists foresaw a recession in the US, raising the specter of contagion of such an outcome on the world economy, particularly among emerging market economies.**
- **Latin America is better prepared this time with fiscal balances, high levels of foreign exchange reserves, low inflation (with exceptions ARG, VEN), flexible exchange rates.**
- **Watch contagion from the US though commodities,**



microexamples of globalization

- Salvadoran pupusas & Danish fetah
- Remittances to Latin America in 07 reached almost US \$60 billion, the same as FDI flows and 8 times more than ODA flows.
- www.latinbusinesschronicle.com



references

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