The Shifting Wealth of Nations

A Latin American Perspective

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Overview

1. Decoupling or Rebalancing?
2. The Macroeconomic Anchoring in Latin America
3. A Key Partnership: Latin America and Asia
4. Looking to the Future
A fundamental shift

- Emerging economies are returning to their historical position in the global economy - a rebalancing of the wealth of nations.

- “Decoupling” is not an appropriate concept, since the Centre is no longer the Centre, and the Periphery no longer Periphery.

- What impacts does this rebalancing have on current economic events?
The perspective is shifting
The perspective is shifting
The perspective is shifting
The perspective is shifting
The perspective is shifting

Joaquín Torres García - América Invertida, 1943
Emerging countries’ increased presence in the world economy

- China’s economy is estimated to overtake the US by 2015, even accounting for a slow-down in growth as the technological frontier is reached (Maddison 2007/ OECD Development Centre)

Source: OECD Development Centre, 2008; based on Maddison (2003 and 2007).
A Global Rebalancing effect…

**China and India**
Share of world GDP, %

- **China**
- **India**

**Developed world**
share of world GDP, %

Source: OECD Development Centre, 2008; based on Maddison 2007.
…with emerging countries increasingly driving growth

- **The composition of growth and output is changing**
  High contribution of Emerging countries is driving world growth.

![Graph showing contribution to global GDP growth](image-url)

*Source: OECD Development Centre, based on IMF*
Emerging economies have become major actors in mobilising capital

Note: Emerging countries refer to Latin American and Asian only.

Source: OECD Development Centre 2007, based on Thomson Datastream (Economist Intelligence Unit).
Trade patterns have evolved substantially after BRICs entry.

**Shift in World Merchandise Trade**

<table>
<thead>
<tr>
<th>Year</th>
<th>Low and middle income to low and middle income</th>
<th>Low and middle income to high income</th>
<th>High income to low and middle income</th>
<th>High income to high income</th>
<th>Unspecified</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>3%</td>
<td>14%</td>
<td>16%</td>
<td>62%</td>
<td>5%</td>
</tr>
<tr>
<td>2006</td>
<td>2%</td>
<td>21%</td>
<td>17%</td>
<td>51%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: OECD Development Centre, based on World Development Indicators, 2008.
Emerging Market Multinationals are growing in presence

Global Fortune 500
Companies by country, 2007

Top non-financial EMNCs
by country (ranked by foreign assets, 2007)

Source: OECD Development Centre, based on Fortune 500, 2007

Source: OECD Development Centre, based on UNCTAD, World Investment Report, 2007
Emerging Countries Exports to US and Europe

Traditional partners are becoming less important

Source: OECD Development Centre, based on WITS/Comtrade
Emerging economies have accumulated foreign reserves...

Source: OECD Development Centre, based on Economist Intelligence Unit
…with the successive creation of Sovereign Wealth Funds

- Increasingly important in the financial world, Sovereign Wealth Funds are predominantly an emerging world phenomenon.

Source: OECD Development Centre, based on Deutsche Bank
A predominantly emerging-world phenomenon

Sovereign Wealth Funds (SWFs) by origin, 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Number</th>
<th>Total assets (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>7</td>
<td>1533</td>
</tr>
<tr>
<td>Asia</td>
<td>9</td>
<td>867</td>
</tr>
<tr>
<td>OECD</td>
<td>10</td>
<td>489</td>
</tr>
<tr>
<td>Russia &amp; Central Asia</td>
<td>4</td>
<td>177</td>
</tr>
<tr>
<td>Africa</td>
<td>7</td>
<td>109</td>
</tr>
<tr>
<td>Latin America</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Pacific islands</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>3,194</strong></td>
</tr>
</tbody>
</table>

Source: OECD Development Centre, based on Deutsche Bank
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Latin America has managed to anchor its macroeconomic stance.
GDP growth comes in hand with credible economic policies

Inflation (% change)

Source: OECD Development Centre, based on ECLAC database 2008
External position in the region has been reinforced

Current Account Balance (% GDP)

Source: OECD Development Centre, based on Thompson DataStream and EUI, 2008.
Public debt has come down...

- Favourable external conditions have been exploited to accomplish remarkably good public debt management.
- Buybacks of external debt, international bonds in local currency...

Source: OECD Development Centre, based on JP Morgan
... coupled with a reduction of the debt service

- Excellent debt management has improved public solvency and challenged the “original sin”.

Sovereign Debt Service, % of GDP

Source: OECD Development Centre, based on JP Morgan
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A third pillar of growth: Asia

- Trade with China and India is increasing all over the emerging world.
- For the first time, Latin American is faced with three centres of growth: The US, Europe and China.

Source: OECD Development Centre, Latin American Economic Outlook 2008
China - an increasingly important destination for EM exports

Source: OECD Development Centre, 2008 based on WITS Comtrade
China and Commodity Prices

- Chinese and Indian demand for commodities as well as commodity prices are on the increase.
- This is good news in the short term, both for Latin American and African exporters. It could be bad news in the long run.

*China’s demand for Latin American commodities (1998-2005)*

Source: OECD Development Centre, Latin American Economic Outlook 2008
Increasing commodity prices are benefiting a number of emerging country exports, though there is also a downside in terms of increasing food prices.
Higher diversity in export destinations, but higher concentration in products exported.
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Effect of Recessions

Africa and US/EMU recessions

Latin America and US/EMU recessions

Source: OECD Development Centre, based on IMF 2008
Effect of Recessions

Mexico and US/EMU recessions

Brazil and US/EMU recessions

Source: OECD Development Centre, based on IMF 2008
Emerging Countries and US GDP

- Emerging Countries have been performing better so far

Growth rates: US and Emerging Countries, %

Source: OECD Development Centre, based on IMF.
Latin America and US GDP

- There is however great difference in the US growth correlation between different Latin American countries.
- Also, Latin America appears to be less dependent on US growth as interaction with the Asian giants increases.

Source: OECD Development Centre, based on IMF.

Source: OECD Development Centre, based on Credit Suisse
The economic consensus in the region is (still) positive

<table>
<thead>
<tr>
<th></th>
<th>Real GDP % increase</th>
<th>Consumer Prices % increase</th>
<th>Current Account Balance USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Argentina</td>
<td>6.6</td>
<td>4.2</td>
<td>9.5</td>
</tr>
<tr>
<td>Bolivia</td>
<td>4.9</td>
<td>4.2</td>
<td>17.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.8</td>
<td>3.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Chile</td>
<td>3.9</td>
<td>4.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>4.9</td>
<td>4.6</td>
<td>6.5</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3.8</td>
<td>3.7</td>
<td>13.4</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>5.2</td>
<td>4.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.2</td>
<td>2.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.5</td>
<td>2.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Panama</td>
<td>7.5</td>
<td>6.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Paraguay</td>
<td>4.8</td>
<td>3.6</td>
<td>11.1</td>
</tr>
<tr>
<td>Peru</td>
<td>8.3</td>
<td>6.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Uruguay</td>
<td>6.1</td>
<td>4.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4.9</td>
<td>3.5</td>
<td>31.5</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td><strong>4.3</strong></td>
<td><strong>3.7</strong></td>
<td><strong>8.7</strong></td>
</tr>
</tbody>
</table>

Source: OECD Development Centre, based on *Latin American Consensus Forecasts, 2008.*
Note: The OECD is not an official provider for macroeconomic forecasts in Latin America. Data presented is based on monthly surveys in financial institutions.
Thank you

http://www.oecd.org/dev