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Third Annual CAF-LSE Conference

Global Governance in an Era of Uncertainty

Panel: "Policy Implications for Latin America of the current changes in Global Governance"

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Talking Points for Rebeca Grynspan

Ibero-American Secretary General

I want to begin by thanking the London School of Economics (LSE) and the Development Bank of Latin America (CAF) for the opportunity to attend this fascinating round of discussions. I am honored to share the stage with our good friends Mario Pezzini, Jose Luis Machinea, João Carlos Ferraz and Guillermo Fernández de Soto.

The rise of the South

One of the key features of the last couple of decades has been the dramatic shift of power from the North to the South and from the West to the East. The rise of the South has challenged the global order that emerged from the II World War – countries and institutions are still grappling with the effects of this reshuffling.

What we are witnessing is not the displacement of powers or the substitution of one hegemon for another, but rather an increasing diversity in the landscape of voice and power in international decision-making. Emerging actors are demanding more representation in the institutional framework, which is coupled with the appearance of truly trans-national challenges such as global warming, the fight against drugs and illicit activities, terrorism, migration, etc. So, on the one hand, we have new global "heavy-weights" and, on the other hand, evermore international issues.

According to UNDP projections, by 2020 the combined economic output of Brazil, China and India will surpass the aggregate production of Canada, France, Germany, Italy, the United Kingdom and the United States. The spectacular economic expansion of China and India alone has affected a larger share of the population than the Industrial Revolution.

Between 1990 and 2010, the South's share of the global middle class population expanded from 26% to 58%. By 2030, more than 80% of the world's middle class is projected to be residing in the South and to account for 70% of total consumption expenditure.

The phenomenon is not limited to the BRICs. Between 1980 and 2010, developing countries' participation in global trade of goods increased from 33% to 45%. South-South trade tripled in the same time period.

As a consequence of this, we have witnessed an increased presence of China in Latin America – as elsewhere in the developing world. Total Chinese trade with the region grew from almost $18 billion in 2002 to almost $260 billion in 2013.

Many have wondered whether China's transition to a slower growth pace, "China's new normal" – a period of inward-looking development and shrinking international demand – will affect our predictions for the future. Even though the world, and Latin America in particular, have experienced the effects of China's economic transition, I believe that it will also be a mistake to write it off as a sign of waning influence. On the contrary, what happens in China and in other large emerging economies will continue to be terribly relevant in defining the complex reality of the next few decades.

The key word is complexity. We live in a multipolar world that cannot be read in simple terms and cannot be addressed with easy solutions. Yet we must strive to not be paralyzed by complexity. We must attempt to find clear policy recommendations that countries can follow – and should follow – in order to succeed in the new world order.

Policy implications

Before we talk about what Latin America needs to get right in the future, let's be clear about what the region got right in the last couple of decades. I want to highlight three achievements that, with varying degrees, most countries managed to register: first, the almost universal transition towards democratic regimes – by far the most important change since the 1980s. Second, the macroeconomic responsibility exercised by governments from the left and right, with very few exceptions. And third, and this is crucial, the considerable social gains reaped from the period of rapid economic expansion at the turn of the 21st century, through a combination of job creation and higher and smarter social investment.

Thanks to this, Latin America is the only region in the world that has recently managed to reduce both poverty and inequality. Thanks to this, now more people in Latin America belong to the middle class than are considered poor, which is a remarkable feat. But these achievements are very vulnerable. We have already witnessed a worsening of poverty levels and stagnation in the levels of inequality. It is well known that the region has entered a period of lower growth and, last year, of economic contraction – though the figures are somewhat skewed but what's happening in Venezuela and Brazil, and there remain important differences in the economic patterns of South American, Central American and Caribbean countries.

In order to ensure that these social gains are not lost with every economic cycle, and in order to position Latin America on a more stable track on the road to higher human development, governments in the region need to address their pending competitiveness agenda and make extraordinary efforts to accelerate the transition towards knowledge-based economies. In this “age of uncertainty,” one thing is for sure: Latin America cannot meet the demands of the new world order by clinging to the strategies of the past.

We have all heard it over and over: countries in the region need to diversify their economies; they need to invest in high-quality education and bridge the skills gap; they need to create an ecosystem for innovation and partner with the private sector and academia to boost research; they need to be deliberate about increasing their economies’ participation in global value chains (GVCs); they need to invest in infrastructure, facilitate a better climate for investment, reduce the size of the informal sector, and invigorate their institutional capacity and rule of law.

Hardly anyone would argue against these policy recommendations. The big debate revolves not around what we need to do but how we will do it and, very importantly, how we will finance it, within a framework of narrow fiscal space, limited capital flows and lower commodity prices. And to top it all, while trying to preserve the social gains that were so hard to achieve.

I would like to pause briefly on the need to invest in high-quality education because this is an area where Latin America has made significant improvements in the last couple of decades. Enrollment in tertiary education in the region doubled between 2000 and 2010 (yet still well behind OECD averages). This is partly due to the expansion of the middle classes and an unprecedented demand for higher education: two thirds of all university students in Latin America are first generation in their families to attend college. This is a positive development and one that we must strive to deepen and expand, as we also work to ensure that the education these students receive is aligned with the demands of the job market and provides them with the skills they will need to remain competitive in a globalized economy.

But rising education standards will not solve the structural problems many Latin American countries face in the new world order, namely, their persistent reliance on commodities exports and their widening productivity gap vis à vis their commercial partners and competitors, particularly in Asia. In order to address these disadvantages, more aggressive, coherent and widespread policies need to be implemented in order to diversify the economy and move up the value chain.

In doing this, Latin American countries would also benefit from expanding their intra-regional trade and integration. Despite progress in this area, intra-regional trade and investment continues to be well below its potential. The region can also benefit from increased cooperation – in particular technical cooperation – and knowledge transfer across countries. This is something we at the SEGIB believe quite strongly.

Finally, none of these things should detract from the main policy objective, which continues to be human development. Latin America has an excess of poverty due to an excess of inequality, which is not only an affront to human dignity but a damper on its economic prospects. Governments in the region have been right to invest in the people – I cannot emphasize enough how important it is that they continue to do so despite the current economic slowdown.