



Session 1 – Latin America and the Caribbean facing the new challenges of globalisation

2016 marked the second consecutive year of negative economic growth in Latin America, a situation not seen in the region since the 1980s. Despite this negative aggregate performance, stark contrasts remain in the region. Commodity exporters from South America, such as Brazil, Ecuador and Venezuela, faced deep contractions in the last couple of years caused by weak global growth prospects, low commodity prices and tight financing conditions¹. Meanwhile, Mexico and Central American economies were expected to grow thanks to their sound macroeconomic policies, and also to the recovery of the United States' economy².

The current weak economic performance is testing the social safety nets in the region and may jeopardise some of the progress made in the last decade to reduce poverty and inequality. However, there is room to increase revenues, considering that compulsory contribution rates to GDP are at 22.8% for the Latin America and Caribbean region³.

Starting in 2017, the region is expected to experience economic growth (1.2% in 2017, 2.1% in 2018⁴); however, these projected levels are insufficient to pursue policies undertaken in the last decade to reduce poverty and create jobs. In addition, several factors are not taken into consideration in these growth forecasts, such as the effects of new trade and cooperation policies on Latin America and the Caribbean. These new policies could have a profound and lasting effect on the region's economic outlook.

Moreover, these forecasts are based on assumptions of stronger economic growth of Latin America's main partners, particularly China and European Union's member states, which are still fragile. The strong reprimarisation of Latin America's exports that took place during the last thirty years has made the region highly dependent on the economic cycles of commodity-consuming countries.

To continue its path towards development and continue the fight towards equality, Latin America and the Caribbean must face several challenges. The region needs to adapt to the changes in the economic and trade policies of its major partners, especially in the case of Mexico and the Caribbean, which are most connected to the North American value chain. It should further develop its partnership with China, Europe and other strategic partners. The Asian country may wish to move from its commodity-consumer status to become an investor in the region as it has started doing in the recent past. The European Union may also want to upgrade its relationship with Latin America and the Caribbean, notably through a new partnership with Mercosur and with Mexico.

The growing mistrust in globalisation and free trade could encourage the region to deepen its intra-regional economic relations, given that trade between Latin American countries only accounts for

¹ OECD (2016), OECD Economic Outlook, Volume 2016 Issue 1, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/eco_outlook-v2016-1-en

² OECD/CAF/ECLAC (2016), Latin American Economic Outlook 2017: Youth, Skills and Entrepreneurship, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/leo-2017-en>

³ OECD, et al. (2017), *Revenue Statistics in Latin America and the Caribbean 2017*, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/rev_lat_car-2017-en-fr

⁴ IMF, January 2017, World Economic Outlook update, <https://www.imf.org/external/pubs/ft/weo/2017/update/01/>

2017

INTERNATIONAL ECONOMIC FORUM LATIN AMERICA AND THE CARIBBEAN



15.5% of their exports⁵. By re-launching their regional integration projects, Latin America and the Caribbean could benefit from a more stable and inclusive growth. The creation of a regional market could thus enable the economies of the region to be less susceptible to the variations of the world economy and political choice of its partners. The rapprochement between the Mercosur and the Pacific Alliance countries shows that the region is aware of the need to strengthen its regional integration.

Questions for discussion:

- What might be the implications of the new trade policies on Latin America and Caribbean?
- How could a revitalised regional integration project protect the region against the economic cycles of its main trading partners?
- How can we preserve social safety nets in a context of deteriorating public finances and tax competition?
- What role can foreign investment play to diversify the economies of the region and contribute to regional integration?

⁵ ECLAC (2017), *Statistical Bulletin: International trade in goods in Latin America and the Caribbean*, <http://www.cepal.org/en/statistical-bulletin-international-merchandise-trade-latin-america-and-caribbean>