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LATIN AMERICA'S MACROECONOMIC OUTLOOK IN AN INCREASINGLY UNCERTAIN GLOBAL CONTEXT

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P R O C E E D I N G S

MR. DERVIŞ: Okay. Good morning. I think we can start. Welcome, all of you. And I hope this is going to become a tradition, it's not quite a tradition yet. I have this wonderful Panel every year to look at Latin America in a global context.

I really don't need to introduce at length, but very briefly; we have José Juan Ruiz Gómez next to me, Chief Economist and Manager of the Research Department at the Inter-American Development Bank. He was, among many positions, but the prior position, he was Director of Strategy and Chief Economist of the Latin American Division of Banco Santander, and he held many other positions. He writes also now in *El País*; right? You've continued?

MR. RUIZ GÓMEZ: From time to time?

MR. DERVIŞ: Time to time. Augusto de la Torre is the Chief Economist, Latin America and Caribbean, for The World Bank; he has held positions at The World Bank, at the IMF, and was the Head of Central of Ecuador.

Then we have Alejandro Werner, who is the Director of the Western Hemisphere Department of the IMF, who has held academic, and private sector and public sector positions; and he was the Former Under-Secretary of Finance and Public Credit in Mexico, an extremely important job. And he was also in private banking at the BBVA-Bankcomer.

And then we have Ernesto Talvi, who is our Brookings Partner, and CERES Director. He is the Director of the Brookings CERES Economic and Social Policy in Latin America Initiative, ESPLA, for those who want to remember it shortly. Ernesto is not only a highly-valued friend and colleague, but somebody who really helps make global what it is, because global economics, of course, has to have a strong Latin American dimension.

He held research position at the IMF, and the Central Bank of Uruguay, and worked with the Inter-American Development Bank on global and regional macroeconomic and financial affairs.

So, we are going to take a look, this Panel is going to take a look at Latin America, and I'm told that the hash tag here, which you are encouraged to use is Latinamgrowth, Latinamgrowth. But you know, let me just say two or three words using the prerogative of the Chair to launch it.

First of all, of course Latin America remains a very important part of the world economy, remains in the sense of its weight in the world economy is still substantial. Asia has grown a lot, but Latin America, you know, being basically a middle income continent, has tremendous weight still in the world economy.

The second thing I wanted to say is that there is a debate, a somewhat oversimplified debate about convergence and divergence. Convergence, divergence in the sense, you know, do developing and emerging countries grow faster, and in that sense converge ultimately, although the ultimate could be a long time, and there's a certain definition -- you know, one can use certain definitions. But if there's a significant difference in the per capita income growth of emerging and developing countries, then we have a situation where gradually the world economy is kind of uniting the old division between developing countries, and emerging countries and rich, advance countries would slowly, slowly disappear over 20, 30, 40 years or so.

This was not at all the case, until the late 1980s and there's even a famous article in *Economics* by Lant Pritchett, who is now at Harvard, in the Center for Global Development, you know, Divergence Big Time. In other words, convergence is not happening. The rich are getting richer, the poor are getting poorer, relatively speaking, at least, and what some growth models would tend to point to, namely a certain convergence process, is not happening.

And then in the late '80s, '90s, things changed. And when you take the aggregate, the aggregate, of all emerging and developing countries, and compare the per capita income growth in that aggregate, with the income growth in the advanced countries, since the early '90s we can see convergence in the aggregate, okay, and in fact, pretty rapid convergence. At rates that are quite significant for that period.

However, this is in the aggregate, China is a very important part of the story, obviously, it's not the only part of that story, others have also grown rapidly, but China is the -- and you know, three, four years ago, you remember particularly when the crisis hit the advanced countries much more than the developing countries, the talk was, you know, the emerging markets are taking over, so to speak. One country that was extremely quoted during that period was Brazil.

You know, Brazil had made it. Brazil was the El Dorado. I think there was a joke or so on Brazil; Brazil is always the country that's about to make it, but this time it has really made it, kind of thing. And so we entered at quite a different optimistic area about convergence. And then things changed again, over the last year. So much so that *The Economist*, in its two-week-ago edition, I think went overboard and said, Convergence Is Dead, altogether, more or less, you know, in journalistic style.

So I think for us, at Brookings at the Global Economy and Development Program, this is of course, a very interesting question. Not just a factual question, but it has to do with, you know, which policies help, which don't. It has to do with geopolitics, it has to do with international governance reforms, the weights, at the IMF, for example, and at The World Bank, it has to do with many aspects of how you manage the world economy, and the G20. You know; the future of the G20 and all that.

So it's against this background that, really, we've encouraged Ernesto and his colleagues to look at these issues from a Latin American perspective, and I think -- I won't say more -- but I think you will see that as always, in economics, it's very hard to aggregate. When you disaggregate and you find that there are all kinds of different stories. I mean the title of the booklet has its subtitle of, Three Latin Americas, and even perhaps more than that.

So, I will turn it over to Ernesto now, but I think it's -- the Latin American dimension of this is a very, very important part of a really global, fascinating global debate that's taking place. Ernesto?

MR. TALVI: Thank you very much, Kemal. Thank you.

MR. DERVIŞ: I tried to be in touch with time because I have to, all of you.

MR. TALVI: Well, we'll try our best. Well first of all, I'm very happy to share the Panel once again with very good friends, José Juan, Augusto, Alejandro. Really, thank you very much for being here. We intend to -- intended last year for this event to become a classic, and we hope that we can continue the next. I would like to express my appreciation to the Brookings Communications Team, Neil O'Reilly, Christina Golubski, and to ESPLA's Project Coordinator, Vanessa Guerrero, who really are responsible for organizing this conference.

And what I'm going to say it's really team work, team work by the team here in Washington, D.C., (Inaudible) Vuletin and (Inaudible), that are here with us; and the CERES team in Montevideo, Uruguay, Santiago García Da Rosa; Rafael Sarria, Rafael Guntin, (Inaudible).

So with that, let me say that I'm going to be touching upon four issues. First, what is the new global outlook in the years to come and what does it apply for Latin America. What are the macroeconomic challenges, what are the development challenges, and what are the political economic challenges that the region is going to face in the years to come? So first, with the exception of 2009, the year, post-Lehman-crisis year, Latin America had a string -- a decade of uninterrupted growth.

But during that decade you can see two very clear phases, 2004 to '11 which is the period that we call the Golden Years in which the region grew at a yearly average of 6 percent. And when I talk about the region, I'm talking about the seven major countries, Argentina, Chile, Columbia, Peru, Mexico and Venezuela, which account for 93 percent of the region's GDP.

Now in the recent years, 2012, 2014, there has been a cooling-off period, the region has slowed down significantly, and the rate of growth for 2014 is projected at a meager 2 percent. Now, only 4 external drivers, or factors; can account, really with digital precision, for these two phases; growth in advanced economies, growth in China, the prices of commodities that Latin America most produces in exports, and international financing costs for emerging markets.

So, supersonic growth rates in China, exponential rise in commodity prices that actually quadrupled between 2004 and 2011. Significant and persistent decline in international financing costs, through 2004 to '11, gave way to a substantial cooling off in China, a soft landing in commodity prices, and the beginning of the end of the decline in international financing cost once the Fed announced its tapering in May 2013.

So exuberance gave way to lackluster growth. So no outlook for the region can really be assessed if we do not asses what other prospects, some very important key drivers of the business cycle in the region. So let's go -- let's review one by one. The prospects for the U.S., the advanced economies, the U.S. and the EU, especially the EU, are starting what now has been called secondary stagnation. The investment-driven credit-propelled model of growth in China has to come to an end in order to preserve the health of the banking system. So markets are expecting a further cooling off in China's growth rates. Markets are also expecting that commodity prices are to soften even further, and that interest rates in the U.S. are going to gradually edge up.

What does this all imply for Latin America? That for the five-year period ahead, the region is expected to grow at a mediocre 3 to 3.5 percent. So what does the reduction in the cruising speed of the region imply, in terms of the challenges that it poses?

Let's start by macroeconomic challenges, and among macroeconomic challenges, let's start by the banking system which has been many times the weak link of the region. And there what we see is that the tightening of regulation and supervision that the region has undertaken in the last 10 years has really paid off.

When we conduct stress tests, really, although not as sophisticated as the ones that are contacted by the Fed and the BCE, but I mean, at least they give us a guide. We see that loan loss provisions and bank capital are really enough to withstand a very substantial consideration in nonperforming loans as growth rates actually decline, interest rate edge up, and currencies depreciate.

So from a banking perspective, if extreme events do not occur, we think that the region has -- is really strong and we don't think the weak link is going to be the banking system in the years to come. Now in the rest of the macroeconomic dimensions, we really don't have one Latin America, but three; first, Chile, Mexico, Peru and Columbia. I mean these countries share a few characteristics, they have fluent access to international credit markets, they have access to multilateral financing, they have inflation-targeting regimes.

The international liquidity position is very strong, I mean, international reserve plus available credit lines are more than enough to pay off all the debts upcoming in the next year, even if no access to credit markets was available. They have a very strong inflationary outlook, all these countries are expected to either fall below or remain 4 percent inflation rate in the next three years. And they have a very, very strong fiscal outlook.

If you do the debt dynamics for the next 15 years, given reasonable assumptions, all these countries remain comfortably below the 50 percent critical to GDP -- critical threshold for public debt. So in a sense, the great challenge for these countries is to try to consolidate their macroeconomic strength in the words of Carlos Vegh and Guillermo Vuletin to try to graduate into countries that really manage very well their macroeconomic policies.

On the other hand, we have Argentina and Venezuela. Argentina and Venezuela share the characteristics that they do not have access to international credit markets, that they do not have access to multilateral financing. That they do have exchange rate and capital controls and a huge wedge between the official exchange rate, and the black market exchange rate. They have a very weak international liquidity position, very weak fiscal position, inflationary financing of fiscal deficits, because they have no access to credit, and the prospects are that inflation is going to remain very high in the years to come if nothing changes.

So the challenges for these countries are really humungous, on the other hand, in the case of Argentina we can talk about Venezuela later, because the politics of Venezuela is more complicated, in a sense. Many countries had these challenges before, and are actually doing the right thing, things can be corrected in a relatively short period of time, even though the challenges are not -- in a sense, are not small.

Brazil is an intermediate case. Brazil has access to international credit markets and multilateral financing, had inflation-targeting regime, relatively low inflation, a relatively strong international liquid position. But lower growth and higher interest rates put Brazil in a non-convergent path of debt dynamics; and in fact, Brazil already has a relatively high public debt to GDP ratio to begin with, so in our opinion, Brazil has time, but given the new and more adverse economic conditions, it will have to do the homework especially on the fiscal side, to avoid debt from increasing at a rapid rate, and losing the credit standing that Brazil now enjoys.

So from a development challenge perspective that Kemal was referring to, the last decade was very substantial for Latin America because it meant the interruption of 50 years of relative income decline vis-à-vis advanced economies. In the last 10 years the Latin American region started to catch up slowly but surely with the income levels of advanced economies. Now when you look behind the scenes and look at the growth drivers, the very important ones; physical and technological infrastructure, human capital, innovation, quality of public services, trade integration to the world economy in its dimensions that we can discuss in the Q&A.

Then the picture that emerges is that convergence and these growth drivers towards advanced country levels has essentially been minimal. So this supports very strongly the hypothesis that it was actually mostly external -- favorable external tailwinds that were behind this convergence 10-year period, rather than domestic tailwinds, induced by a very substantial process of reform in some key areas. Only Chile really has made progress in the last 25 years, that puts the country on a road to potentially, converge to the lower level of advance country incomes in a minimum of two generations. So even for Chile it is going to take time.

And finally, I would like to add very briefly what are the political economic challenges, at a time when, as we say, the cruising speed of the economy is slower, therefore the governments are going to be pressured to weaken the growth, and to continue actively distribution policies that were pursued in the last decade but with fewer resources. And with an electorate -- and with a high degree of social discontent that has been expressed through both social protests and wider decline in the popularity of outgoing precedence during the cooling period, relative to the outgoing precedence during the exuberance period.

Why do I think governments are going to do the right thing? First, because by and large democracy has matured enough in the region that we might be more confident than we were before, in the sense that the right decisions are going to be made. And second -- and with this I finish -- that paradoxically it is in more trying times that the incentives to undertake politically complex but socially necessary reforms are stronger.

As a famous economist once said, "It is in bad times that the politically impossible becomes politically inevitable." So with that I finish, Kemal.

MR. DERVIŞ: Thank you very much, Ernesto. This was a very good, comprehensive overview of the -- substantive research, very well summarized. Given that you and your colleagues are the authors, we allowed you a little more time, but now we have to stick to our 10-mnute rule, otherwise we won't have much discussion. And I turn to José Juan.

MR. RUIZ GÓMEZ: Yeah. Thank you, Kemal. Thank you, Ernesto, and Brookings for inviting me and having the opportunity to share this incredible Panel. I will make a confession. In the last couple of years this time I have gone to this kind of meetings, similar meetings, this is the normal meeting, of course.

This is Brookings and these are the cleverest boys in town to talk about Latin America, but we have got many talks -- many, many meetings talking about Latin

America in the last couple of years, I must confess that it has been during the moment in which some of the panelists were going to say one, or sometimes the three of the sentences that I am going to tell you just now.

The first is back to your (inaudible); the second is tailwinds are turning to headwinds, and the third one, it's there is no room for complacency. These are the three sentences in which, in the last couple of years, we have been on a (inaudible) Latin America. And I am very happy now, to some extent, I welcome the moment in which these fact that Latin America is not growing anymore is going to put an end to this kind of discussion.

We are not going to talk about risk, we are going to talk about risk, we are going to talk about something that is just now on the table. And on the table is the facts, the number, the data, and Latin America in the year 2014, it's very (inaudible) if it can grow above 1.5 percent, which is 50 percent of the potential growth. And if you look at sensor forecast for next year, you'll see that Latin America and (inaudible) in the best of the scenario is not going to grow beyond (inaudible) percent.

We are going to have to really very mediocre rates of growth being in the (inaudible) to come; maybe in 2026 in, we are going to see all the brighter panorama. I think this is, in my view, what keeps awake the Minister of Finance in the region, lack of growth. And this is important, and maybe if I were a policymaker I will come back to the expert to Augusto, to Ernesto, to Alex, and I will ask, why?

If all there is, you and your colleagues has been telling us that we are going to have an impact on Latin America, if those risks have not fully deployed all the negative impact they can bring, why the elasticity of Latin American growth to this new -- and the world's external environment is having such an effect. Because the slowdown in Latin America is tripling the slowdown that we have in the world economy, or it's nearly doubled the slowdown that we have got in Africa, in Asia, in the ASEAN economies.

I think this is quite an intriguing question, and we need to try to answer this question to policymakers because we are going to advise them, in all areas that are important and that we need to have, that's important. Maybe one can -- you can try a very easy answer to this question, you can go and try to make the accounting of a (inaudible) expectation of growth in Latin America has been marked down. And if you go to this accounting method, and you see what we would say at the beginning of 2000; at the end of 2013, and what we are now getting, you will get something like this.

You have markdown of nearly 2.4 percent, and these markdown in the rate of growth will be as plain, 1 full percentage points by the decline in Brazil, 0.6 percent by the decline in GDP expectation growth in Argentina, 0.6 by Venezuela, 0.2 by Peru, 0.2 by Chile. You will see Columbia is making a neutral contribution, and you will see that Mexico is making a positive contribution on 0.4 percent.

And this is something that, in some way, is what have made -- has been talking to you as the result of the recent (inaudible). There is a lot of ways to interpret these accounting numbers; one of these is to say, okay, those which are more exposed to commodity prices are having a much more -- a faster reaction. But I think what markets and the private sector, it's reacting, it's not just to the shocking 8 percent, the markets are responding to the capacity of response of these countries.

And I think this is what we are seeing when we look at the numbers, and we look at the decline in forecast, what we are seeing is how markets perceive the possibilities, react to these shocks, and how markets perceive the probability of having a chain in this model, in this capacity, institutional capacity, and policy quality to make -- to answer the shocks. And I think this is very important because what we are seeing is not just that growth is going from the south to the north of Latin America, but maybe growth is going from those which has not been very fast and very (inaudible) like reforms to those which have been making reforms in the last couple of years.

Let me perhaps answer a question that Kemal say about real convergence. Kemal, if you go and see what has happened to real GDP per capita in Latin America, and you compare it to the United States, and you see which was the gap with the United States for each of the 26 Latin America countries that belong to the IDB, what you see is that except Dominican Republic, Chile, and Panama; Latin Americans of today have a larger GDP gap in terms of GDP per capita as against the median American citizen that they have their grandfathers on their (inaudible) in '96.

The GDP differential it's much bigger -- it's not much bigger, it's 10 percent bigger than it was in the '60s. And why this has happened? It has not happened because Latin America was not being able to invest -- make a lot more investment. Perhaps it's not been, because it has not been able to increase human capital. It is not, because it has not been able to create more formal jobs. No.

The fact is it's not a factor of productivity, it's not a factor; productivity has been declining for a long period of time. And maybe we have been too technical, to specifically looking at the productivity, and looking for economic factors, and we have overlooked some other impact on why this productivity is not growing as fast as we decide and we need.

I think that we have the problem of inequality and crime, and we are not making an assessment of what are the impact of inequality in Latin America and crime on productivity growth. We need to grow more, to be more inclusive, but maybe we need to be more inclusive to have higher productivity rates of growth in Latin America.

On the second point I think it -- and these go directly to those which we are seeing and that we were -- the party is over -- this I don't think that -- the party is over, but the party which is over is the party of the '80s not the '90s, at least Latin America, in my view, has not been in a party. What has happened in Latin America in the last 15 years, has not been a party, it's not the kind that can really have what a party needs.

What, Latin America had been having in those years, is a process of learning with democracy. Between 2009 and 2016, Latin America is going to have 35 electoral presidential elections, 35. It's the first time in the whole history of Latin America that this is going to happen, and from 2000 -- September 2009 till now, to September. And this month of October we are going to have elections in Bolivia; we are going to have election in Uruguay, and we are going to have election in Brazil. This is going to make nearly 30 -- electoral process has been already complete in Latin America at the end of this month.

What we are seeing is that it's important democracy appears to be high in Latin America, but the turnover in the electoral process are going down, and third, what the (inaudible) that are resulting from these electoral process are much more fragmented than they were in past. If we want to push productivity and reforms, we need to have a look, a serious look at what is going on in the political economy, and the congress in which the policymaker has to approve these reforms.

We have to inform then, what we know, and we don't know of how to promote productivity growth, we need to do much more effort from the multilaterals, from the academia trying to explain which are the reforms that has the largest impact on growth according to what we have been as students. We have published very recently, our group, about the institution and about productivity development, and what used to be called Latin American Industrial Policies.

We are trying to put a framework, to think how we can help these policymakers which are going to be in a very, very competitive, and in a very hard situation, because growth is going to be low, to make the reforms, because the consequence of these low growth, and I've just seen here, is there is some kind of impossible trinity between low growth, continuation of social policies that have made -- that are responsible for the huge progress we are making with such indicators, on the authority of macroeconomic policy.

This is an impossible trinity. If low growth is there, something is going to be dispelled. Either the social policies, which means that we are not going to have the social climate we have had in the past, or we are going to be back to (inaudible) policies despite the fact that institution has been created and are responsible for -- and has been very responsible in the last part of (inaudible).

MR. DERVIŞ: Thank you José Juan. Augusto, any optimistic streak that may emerge, or? I'm not putting any pressure.

MR. DE LA TORRE: I'm always kind of like, the glass is half-full guy, so it's good to be like that, because it seems my colleagues may be a little bit more towards the other side. I want to add just three or four thoughts to what has been said so far. To characterize the type of dialogue and policy debate we are having in the region in this context, you know one -- there are two questions regarding the current junctures.

How bad is going to be the cycle, and what's the nature of the cycle? And how bad it's going to be the trend of growth going forward? And I don't think we have good answers on the two. Some have the impression that the deceleration that we have experienced between 2012, 2013 and 2014, has already marked kind of the lower point of the cycle, and maybe we will be going back to something, which we don't know what that something is.

Others are more pessimistic and think there is more yet to come, in terms of deceleration. But I think where we seem to have growing consensus, which was

I think reflected in both interventions before, is that what we are experiencing is not the same type of bust or boom, which was more of the Latin America syndrome of the '90s. So this doesn't look like a big bust and implosion in finance in debt, but more of a significant deceleration that's looking more like a traditional business cycle. That's the good news. The bad news is, of course, that deceleration is very painful.

The question as to where we will go back after the low part of the cycle is over; is again, uncertain, but I think there is some coincidence that it's not going to be that type of growth rates that we had before. That we seem to be moving to something more in the neighborhood of 3 percent over the trend, and that's low. That is a growth that will create quite a bit of tensions.

And so I think my colleagues are absolutely right, that the type of conversations we will have going forward is going to center on two big issues. It's going to be less centered compared to the past on macroeconomic instability, and financial turmoil type issues. And it will probably be much more centered in the issue of long-term growth with equity, which is of course going to be very hard to achieve, given what we are experiencing.

So if that's going to be the things that we are going to be talking about, let me tell you kind of two or three mentions which I find fascinating in this conversation. First of all, it's that these low growth that we are seeing towards the future, is going to be affected one way or another by the fact that we have been and are likely to be a low-saving region, in America. It's much less than the Asian countries. And low saving in the region has affected our region in different ways in the past than perhaps it will affect in the future.

In the past, how did the low savings used to translate in the region? It used to translate into a pension, a kind of a systematic tendency to have current account deficits. And the current account deficits with -- often generate problems of balance of payments viability, and prices in the external debt trajectories.

And so the low savings in Latin America during the '80s and the '90s was associated with countries that had a high risk of default. So Latin America had very low ratings compared to the Asian countries. We were perceived as high default risk countries, and as a result of that we lived with problems of instability in the balance of payments, and we relatively depreciated real exchange rates.

In fact, in a recent work that I am doing with (inaudible), we find that Latin America in the '80s and '90s appeared, relative to benchmarks, as a relatively undervalued region. What happened in the 2000s is that we ate away that (inaudible) devaluation, and we went from fear of depreciation in the '80s and '90s to fear of appreciation in the 2000s. So the 2000s were a period during which most countries, you see Columbia, you see Brazil, you see Costa Rica, ate away whatever external competitive advantage they may have had, which was largely due to the fact that we were high default risk, now we are at the reverse.

We have become a good a good asset class, with some exceptions of course, of some nationalities that shall not be mentioned here, but in general Latin America, when you take the five inflation target things, and you look at the ratings of these countries, they are above those of these Southeast Asian (inaudible), so we have now -- are no longer seen as a default risk region, we are a better asset class (inaudible), the Wall Street guys will say.

And so we -- the low savings are not likely to hit us in the future through these balance of payments high (inaudible) class; the sense is that in the future, low savings will hit us by disabling our capacity to be externally competitive from real exchange (inaudible), and as Charlie Beck has taught us in several of his text books, when you have low savings you have a fundamental that prevents countries to become externally competitive.

And so Latin America is going to have to learn to find the path to growth in an environment, and it's going to be very hard for the region as a whole to have really competitive real exchange rates, which I think were part of that Asian growth (inaudible) story. Those countries grew fast, I think, to a large extent, by this overall protection that the trade or the sector received through very competitive real exchange rates.

So I think this is something that we have to think about because for Latin America, a low-saving region operating now through this lack of external competitiveness, it means that to really get long-term growth going, it's going to be a hard -- very difficult task. If you are in China, or in Vietnam, and your real exchange rate is very competitive, then your structural reforms to get productivity going may pay off for easier and faster.

But in Latin America our structural reforms to get productivity growth going are going to have to overcome the problem that we have these drag of low competitiveness. So I think this is an important point to think about, because what it means is that Latin America will have to make some sort of a saving effort, keep the current account deficits from exploding. And the incentives are going to be there in the future to (inaudible) current account deficits.

Because as we are now better-rated countries, we will be more able to finance our deficits, and there will be quite a bit of social pressures to keep consumption up. Therefore I think we may go into a -- and then, besides it's a region that's deleveraged a lot, so there's room to borrow. So this is what, I think, the syndrome that we have to keep in mind. So the idea of keeping fiscal discipline, keeping fiscal public consumption down, and tight, avoiding excessive widening of the current account deficit, and its financing, is going to be a challenge for the region.

And the more we open the current account deficits the less competitive in equilibrium our real exchange rate will be. As long, of course, we go back into the times of high default risk, in which case our real exchange rates will depreciate. But I don't think we'll go into the period of high default risk, so I think in equilibrium, to the extent that our current account deficits do not raise the threat of default risks. Of course we are going to pay; it's a relatively uncompetitive external situation.

So the region will have to do a lot on the productivity side, but it's a region that has no experience in that dimension. You know, when I get invited to go to China, I get invited to talk about financial crisis, and inflation targeting, and exchange rate management, nobody has invited me to talk about growth in China. Because they know that we know very little about it in Latin America.

We know a lot about macroeconomic stabilization, and we have learned a lot about targeting our social assistance factor. So we also get invited to talk about conditional cost transfer now, which is an addition, but we are not invited to talk about growth, because we know very little about it. And we have to recognize that, and the task before us is so massive that we are going to have to find a way to learn fast. And think of every dimension that may matter for productivity growth and you will see that we are behind.

So think of infrastructure, when was the last time you saw a big infrastructure upgrading wave in Latin America? Probably the '60s, that's when we built good roads and bridges, and we had the alliance for progress and what have you. Since then, even though we now have resources, we haven’t been able to put together any vigorous improvement of infrastructure because we have lost even the institutional capacity to do so.

That may have been a casualty of the Washington Consensus, where we kind of dismantled our ability to prioritize, a public investment to find out what the social cost benefit analysis is. And I don't find, in any country that I have seen, including Peru, have had a very strong institutional capacity to put together a wave of infrastructural upgrading. Think of educational quality, we have brought the kids to school, but the quality of our public education, leaves a lot to be decided. And when you see the way in which countries like South Korea or Singapore can raise, and now China, can raise the quality of public education, we are quite behind.

Think of innovation, and the ability of firms to grow, then to latch onto global value chains, Latin America is quite behind. So I don't want to belabor this point, and I want to finish here, but the point that I want to make is that this dual challenge of keeping a progressive distributional agenda, which we experienced in the 2000s, and lifting growth beyond the 3 percent, is going to be very tough in a region that is already going to be battling with a tendency to have fairly uncompetitive real exchange rates.

The social agenda has all the dimensions which I want to just mention to leave it for the conversation later on. Which is I do not see how we can make progress in the social agenda without figuring a path for a re-contracting of the social contract. We have now a region where about 34 percent of our population is middle-class, and only 25 percent of the population is poor. We changed the socialist structure in 10 years.

But those that have become middle-class, and that have left poverty, they have very little incentive it seems to be engaged with the social contract. The first thing they do when they become middle class is they take the kids out of public schools, they privatize education. They move to a neighborhood that has walls and private security, so they privatize security. And if they are living -- the Dominican Republic they buy their own electric generator, so they don't have to depend on the public service electricity.

So we have a new class with more purchasing power that doesn't want to be engaged in the social contract of citizenship, paying taxes, demanding better quality of public education, et cetera, as we would like. And so this -- reconstructing the social contract for me, is part of this huge challenge on the distributional agenda which, of course, will be harder to manage in the low-growth countries.

MR. DERVIŞ: Thank you. Alejandro.

MR. WERNER: Thanks, Kemal; and thanks, Ernesto, for inviting me to comment on this work, and to comment on what we have heard. And I mean I would start by saying that that was a half-full, half-empty glass; it was pretty pessimistic as well. And I think what we have seen and what we have heard here is a view that, I mean, Latin America has done quite well in the last 10 years, I mean, from what I'm hearing, and the work that we have done as well. I mean, basically that's a result of having managed the macro relatively well in the last 15 years, and having gone through one of the largest, in terms of trade booms in the history of Latin America and managing this boom better than in the past.

Now, we are going through a scenario in which the terms of trade are going to be constant to declining, and more on the declining phase. It's still very high from a historical perspective that basically the boost to growth came from two things; from the growth in the terms of trading, and also from studying of a situation of significant, scarce or low capacity utilization that gave this economy a lot of room to grow.

Now we are much closer to full capacity utilization, no growth to the declining in the terms of trade, and that for the commodity-exploring countries, it's a big negative shock. The rest of the region, basically Central America and Mexico, had a really bad golden decade with very mediocre rates of growth, and now, I mean, with the

U.S. picking up, and expected to pick up, in terms of growth in the next two to three years, they might get a positive boost coming out of these.

But obviously this is nothing in comparison to the shock that South America had. So the region as a whole is going to be doing really poorly, and we are back to the strong growth, determinants, the hard -- determinants of growth. I mean, José Juan talked about a total factor productivity growth, we just heard about savings, and I mean, regarding whether we think the challenge is going through a real exchange rate depreciation, et cetera, all through the capacity to invest and to mobilize local resources to boost your investment rate.

At the end of the day, population is not going to be growing as fast as it did in the past. We don't invest a lot, and we don't have a lot of productivity. To change any of those three things, we need education, increased the savings rates and increased productivity. These are, I mean, very slow-moving processes. Politically costly transitions that have to be implemented, and I think the key question there, and going back to what Ernesto was saying is how the political economy will (inaudible), hopefully to maintain macroeconomic stability in an environment of low growth.

And I think that's a key -- the key question for the next four years is that one, and the key question for the next decade is, are we going to embark in the structural reforms to increase the trend rate of growth for the next 10 to 15 years? And I think that's the key challenge that we are seeing now in Latin America, then I think what it's -- said in this study; it's in some dimensions in Latin America is much less vulnerable than it was in the past. I mean, we would significantly reduce leverage; our banks are well capitalized, and well regulated. Our financial markets are working relatively well.

Private debts have significantly increased maturities and shifted towards the local currency, et cetera, et cetera. So the big problem going forward is that we are not going build these vulnerabilities in the next three years, in which growth will be coming down. Although the Fed is going to start normalizing monetary policy we will still be living in a world of ample liquidity and low financing costs.

So these possibilities of what Augusto was saying, you know, the temptation to continue expanding in aggregate demand, and with distributing, et cetera, financing these with a financing environment that with bout of volatility, but might still be too lenient -- too benign to these countries. It's a real possibility in which some vulnerability that can be (inaudible).

I do think that -- although I mean, I fully agree with this disenchantment with to decide the point of view in terms of public services. There have been positive movements in Latin America societies, vis-à-vis, I mean, the support for macro stability. I think this is much more support than what we saw before, I think flexible exchange rates in independent central banks are an extremely instrument to have to avoid building extreme vulnerabilities like the ones we had in the past, and this process will be at work.

But still, I mean, I think these next three years, will be a significant stress test for a lot of societies that were able to resolve a lot of their social and economic challenges, through a significant abundance of resources coming from the community oriented sectors.

So I definitely share the views that we have heard here, I would also -- I mean just to empty the glass a little bit more from where I got it, and say that even if we embark in a very strong structural reform effort, structural reform in the short run might be negative for growth. I mean while we discuss structural reforms there's significant (inaudible) in uncertainty, and economic agents reduced investments in this -- during these periods. I mean we are seeing that in Mexico, in Chile, et cetera.

I mean, these discussions took a-year-and-a-half, et cetera, and during this discussion you don't know exactly how the taxi stand is going to transform itself after a reform, and therefore there is a lot of wait and see attitudes. And we also are opening up the economy or some key sectors, the established interest pull back and wait until -- they wait until they see what's coming. And also what is coming might not be good for them, until new entrants start coming in, then the investment suffer.

So this will be a painful process that we have (inaudible) and might complicate the situation a little bit more. The positive news from my side; is we are seeing that things are moving on the structural reform side. I think what we have seen in Mexico, after many years of low growth, is eventually a consensus of moving ahead and opening some key sectors; energy (inaudible), et cetera. I think the discussion in Chile of reforming their fiscal system to support a strong reform on the education side.

In Columbia we are hearing also positive things on the fiscal side, on infrastructure, et cetera, and the whole region has, in general is talking about the structural issues. So I think there is a hope, I think the situation is much better suited than in the past to address an environment of low growth and instability, and I think if we are able to go through the next five years, in a scenario as the one that is present in this -- in these report, of low, mediocre growth, but we look at these last ones -- years in Latin America with instability.

And the average rates of growth that these projections will give us, it will be a great decade for Latin America, we will have -- I mean, I've seen -- saw this (inaudible) very significant push for growth in the future, and the big risk is during this stress test, we'll have some political systems that actually try to stretch the limits of a macro policy to stimulate growth when the true constraint to growth is on the supply side.

MR. DERVIŞ: Thank you very much, all of you. And let me just start the discussion that will go to the audience pretty quickly. But I heard two very fundamental messages from all of you; apart from the demand drivers which Ernesto already outlined very well, in the beginning, the external side of things, but from the internal side.

Well one was, and I think it was Augusto who really stressed that, the low savings environment, okay. And the other one was the total factor productivity, sluggish growth of total factor productivity. Now from a supply side, when you think of growth from the supply side, I mean, these two things are really fundamental. Demand fluctuates at the end of the day, now of course if you take a secular stagnation type outlook you can get into a series of short-term stagnations can last a long time from the demand side.

But I think at the end of the day growth is more of a supply side affair, in the long run, unless demand is really messed up, and from the supply side, what one needs is factors of production including human capital of course. But also capital, in its various forms, and productivity growth, I mean total factor productivity growth. And total factor productivity growth, you know, the whole debate on convergence, and why convergence in Asia and in some other countries started taking hold so strongly, it was the catch up in technology.

Many of the developing countries did not have the institutions in place and the information channels of capital markets, the foreign investments, but once that whole thing starts, then to get closer to the frontier of technological knowledge becomes easier. It's always easier to adopt a technology that already exists, than spend a lot of resources inventing it. Okay.

So my fundamental question on total factor productivity side may be, you know, some of you would want to add to this and (inaudible), why isn't the catch up part in Latin America much more rapid as it is in Asia. Okay. Now maybe it is linked to the savings issue, because at the end of the day to catch up, one has to invest, I mean, you don't just catch up breathing air by itself. You have to take initiative, you have to have joint ventures in order to import and adapt to technology.

And there of course the statistics, in terms of Asia and Latin America are dramatic because Asia's average savings rate, if you include China, is something like 36 percent, if you exclude China, it's about 30 percent. In Latin America I think the average is probably something around 17 or 18 percent, so it's almost twice as high.

And, you know, do we know why? And by the way, I'm particularly interested in this question because Turkey is Latin America, in that sense, you know; savings rate at 15 percent. Why are these two factors so, you know, beyond the external drivers? If supply side growth is going to succeed, it has to go through higher savings and higher total factor productivity. Does anybody want to add just something, maybe, to this? Ernesto?

MR. TALVI: Well, Kemal, this is a very key, a very, very key question, and there are many possible answers to this question, but let me give you one. When you look at the -- and remember Bob Lucas once was very (inaudible) basically very difficult to read paper titled *The Making of a Miracle*, and it's about Korea.

So essentially when you look at the only development miracles that we saw since the 1950s, and this is all coming up in a very interesting volume that Kemal, would call me (inaudible), and contributing to, on Growth Convergence And Divergence Debate, it's going to have 20 contributions. So this is going to have a lot of information in a lot of the regions, but when you look at the -- only five miracles that we saw since the 1950s, and there were only five that actually achieved the fate of becoming rich, starting from the low levels of income relative to the U.S. or advanced economies, and all of them were Asians. Japan, Taiwan, Singapore, Hong Kong and Korea, that's it, no more miracles.

When you look at what really happened, during the period -- and then this took place in a period between 25 and 45 years, so this was not an eternity. I mean, it occurred very rapidly, that's why we call them miracles. If you look at what was happening when income was converging. You look at the drivers and you see human capital was converging to towards advanced economy levels.

Infrastructure and technology was converging towards advanced economy levels, and integration was converging very rapidly in the sense that the countries were becoming extremely open as they developed in the sense that the process was accompanied by a huge increase in exports, and the imports, and integration into the global value chains and an increase in intra-regional trade.

When you look at Latin America any of the processes that actually looked like we were studying convergence the last 10 years were -- we see nothing of that, now convergence in human capital, now convergence in physical and technological infrastructure towards advanced country levels. No convergence in terms of the integration of our economies into the world economy.

We have very low levels of integration compared to (inaudible). We are practically outside the circuit of global supply chains, and we have extremely small intra-regional trade. So one of the reasons, I think we are not seeing this it's because, and I think this is very important, the region has not integrated enough, not only between -- among the countries in the region, but with Canada and the U.S.

So I think that we need to recreate the spirit that we had in the '94 (inaudible), when we thought that we could create a large region where goods and surely people could move freely between Alaska and (inaudible), and we think that the ingredients are there to recreate that, because already 11 countries in Latin America have Free Trade Agreements with the U.S.

So it is only a question of creating a new (inaudible) American partnership where we harmonize the rules of our region, among the countries that already have FDAs with the U.S., and we can create a huge economic space that might give the impetus for many of these things that we need -- doing. But I think that a lot of this happens when you integrate into a larger economic space, and you create the external incentives in order to do a lot of the reforms that we need to do, rather than do them on our own, country-by-country, and fighting with a very complex political economy.

MR. DERVIŞ: Juan, you wanted to say?

MR. RUIZ GÓMEZ: Yeah. Now I think the question is a key point for what is going to happen within the region, but if you try to make a short answer, I will say that we have too few big companies and too many not -- micro companies. I think the structure of the economy in Latin America has a lot to do about the incentives to innovate and not innovate.

Big companies maybe are less interested because the economy is less diversified, to integrate. Domestic companies in the value chains, in fact, we came to only -- we went to Mexico last week, and one of the things that the authorities are trying to do, is how to integrate these small and medium companies into the strategy of the big companies to create these value chains that were not (inaudible).

But I think this is more of a -- because the micro companies which are not just in the formal economy, but many of them are in the informal economy have less finance, less training, less capacity to integrate, export and import. And I think this can make a lot of -- a big difference to (inaudible). And the result of this structure, it's that the level of diversification of the economies in Latin America, it's low. When you go and see what are the main exports of Latin America you see that in the first 10 items exported by Latin America, seven out of 10 are commodities.

If you only have three exports that are computers, media displays, cars and the three of them are made by Mexico. But if you go to the 15 (inaudible) export of Latin America, you say that you have 5 out of 15, or 10 out of 15 commodities. The cars, computers and media displays; you have drugs, you have drugs and integrated circuits, and again it's Mexico and Costa Rica.

And if you go to the 20 you don't have -- you have just six, and you do not -- too many countries. I think it's very concentrated, it's not as diversified at the Asian structure, and I think -- and I don't know if this is the result of the consequence of having low innovation, and it has something to do -- very clearly has something to do with it.

MR. DERVIŞ: Okay. We have to open a little bit, there will be one, you know, vague, quick message from each of the panelists at the very end anyway, but we are running out of time, so let's get some questions from the floor; if there are of course. Yes. Theresa?

SPEAKER: Just to ask a question of whoever wants to respond. And that is how do you see, first of all, the likelihood, and then the consequences of Brazil undertaking next year a significant adjustment which, in terms of the fiscal (inaudible) it has to be quite substantial. And if you take into account all the sort of the quasi fiscal problems that are -- you know, or practices that they have -- they occur.

How is that going to impact domestic demand and the possibility of growth? And do you see any real chances of a structural reform effort, sort of being undertaken, after? You know, it has not been undertaken for the past, you know, many years, basically; in better economic and social conditions than the countries (inaudible) to have next year?

MR. DERVIŞ: Okay. We'll take a few questions, if there are. Yes, here?

SPEAKER: (inaudible), EXIM Bank. My question is still regarding something that you have been talking about, it's total factor productivity. It's seems also that in Latin America we have like the world economies that are (inaudible). One that is like a growing very quickly and it has a lot of technology, and you were talking about flat screen (inaudible); maybe aeronautical equipment, and medical equipment and medical equipment; the going back and forth between North America and Mexico for (inaudible).

And we have another (inaudible) like little value-added, that we were talking about the concentration, about the markets again. What would be the policy advice that you would give to Latin America to have a better (inaudible) through all the sectors and not just like pockets of development?

MR. DERVIŞ: There was one question, there, at the very back.

SPEAKER: Sammeer Bullock, I'm with Swenco. I wanted to ask, the specific alliance countries attempted integration with Asian economies, what sort of effect will that have on TFP growth? Thank you.

MR. DERVIŞ: Okay. Maybe I'll take two more questions, yeah. There in the back, and then you. Yeah.

MR. POWELL: Yeah. I'm Andy Powell from the IDB. That was -- as Alex said, that was kind of the most cup-half empty speech I've heard from Augusto from a long time; but I want to make it a little more empty. So, I think I heard you say that our leverage declined and that may be true, you know, for the public sector compared to before the crisis, but I mean, public sector debts being increasing quite rapidly given the deterioration and the fiscal, and then private sector debt has increased substantially.

So financial systems now are roughly doubled in size if you look at (inaudible) of the non-financial private sector in the last four, five years, and then private companies have been issuing a lot abroad in dollars. So I'm a little worried. You know, there was this thing in the U.K. that we called the Lawson Fallacy, right; which is if you have persistent current account deficits but if it's the private sector then somehow it's okay.

And as the names suggest that came home to roost, quite forcibly in the U.K., so I agree with you, that I think, you know, hopefully we'll avoid any financial crisis, but the business cycle can be substantially amplified, let's put it that way. If we get into a leveraging and deleveraging cycle, and I suspect that we are especially looking at private sector financing where, you know, may be at the top of (inaudible) cycle.

MR. DERVIŞ: Okay. The last question --

MR. VEGH: Carlos Vegh from Johns Hopkins. Yeah, so just a quick comment to get a direction from the Panel. It seems to mean that the big boom of the last 10 years of so. I mean, it was mainly driven by capital inflow and high -- multi prices, I think that we can agree. And reaction that I like to get from the Panel, is that I feel that the fact that as perhaps, the part not being stressed enough, is that we have lost an opportunity to do more in those good times.

Because I feel that it is very hard to do good stuff in bad times. I mean, when bad times come you have to put out the fire and you can do little less. It is still good times, that I feel Latin America should have been -- build even more in fiscal pace. Should have been trying to deal with the issue of monetary policy (inaudible) that list to the cycle of sharp appreciation, and then sharp depreciation in bad times. And also, that is the time in times of bonanza, when attacking structural reforms are the easiest. So it was not that a lost opportunity to do more?

MR. DERVIŞ: I will ask one last thing, and then each one of our panelists, will go in the reverse order starting with Alejandro, and ending with Ernesto.

But, you know, really one minute, if you have one thing to add because one of our Brookings' traditions -- is we try to finish on time so people can follow the schedule. But my question is, when we say integration, and I don't even expect an answer, it's just, you know, if you look at integration within countries, as well as integration with the world, we have very good stories, and we have bad stories.

The Asian integration to the world economy was fantastic, obviously, and Ernesto underlined it. But it was also a very managed integration, an export-oriented integration, it was not just an opening of borders, and then let -- you know -- let the private sector do everything. It was a very managed integration, and export-driven integration.

If you look at integration within countries and it deeply worries me in Europe, for example, you know, Italy has been an integrated country for decades, right, and yet the gap between the North and the South has increased, if anything. So, I just want to -- how shall put it -- you know, put a little damper on the (inaudible) markets and integration, and good macro policy alone, and do the trick. I think there's -- all panelists stressed the supply side, starting with Ernesto's emphasis on the drivers of infrastructure, for example.

But my own feeling is that Latin America will require a strong private-public partnership with the public leadership, not big state sector, but public leadership actually playing a very strong strategic role in making the supply side happen; if it just integrates into the world economy, or just pay to, you know, an American free trade zone, I'm not quite sure that will be enough to generate the supply responses needed.

Sorry, about that; prerogative of the Chair. So Alejandro, we started just, you know, one major point you would like to make or two, and then we will have to finish.

MR. WERNER: Just two points in responding, I mean, what Theresa said, I think Brazil is at a cross roads. I mean they would have had, next year, five years of low growth. There's an important macro adjustment to be done. We have discussed it in (inaudible) reports, et cetera, so people know where we stand. But also I think there's a very strong growth agenda to be deployed, which hopefully significant consensus can be built. I mean we have seen some things been pulling the table to this campaign, but I think the key issue, the macro thing, I think, there's some consensus.

On the structural issues, I think would be a big, big challenge for Brazilian society to carry and to generate support for that, and that they cannot grow much faster than 2, 2.5 percent if they don't go ahead with strong structural things. In terms of leverage that Andy was saying, I think it is true, when you look at Latin America from the -- in your perspective, I mean they have been countries in which the financial system has grown a lot. And I think if you actually stress-test, I don't know, the stress test that Ernesto was talking about, we did some with our (inaudible).

But I think if you stress the macro significantly from 5 percent growth to 2 percent growth. Unemployment going up, real wages going down, et cetera, there might be some surprises that we think can be handled within the current strength of the capitalization issues, but it would be a -- we can't have strong surprises. On the government side, we are not as concerned, but if this thing continues growing, maybe it continues to shift to the high yield less a sophisticated and unnaturally-hedge sectors, and that could be a concern.

And finally on Kemal's point, I think policy constituency, and therefore policy uncertainty, both on the macro, but more than that on the microeconomic front in Latin America, it's a huge deterrent to investment.

MR. DERVIŞ: Augusto?

MR. DE LA TORRE: Yeah. Just a couple thoughts on this conundrum of low productivity growth and low savings; I think that productivity growth is very much associated with a capacity of societies to learn, and to learn through production, to learn through investments, to learn through trade. And Latin America has traditionally been a society that learns less from FDI, from international trade, from investing, than other societies.

Discovering why is it that we have this kind of deficit in the ability to learn is, I think, key. I think some of it is related to the fact that we documented in our most recent flagship report that our more well-regarded companies. The bigger, formal companies, the exporters, even the multi-Latinas, tend to be less vigorous in their ability to grow and generate jobs than the similar companies elsewhere.

So Latin America has this sort of growth stomping phenomenon where companies, even when they are good, they don't grow fast enough and provide the type of scales, effects, and their clustering effects that can perhaps provide this ability for societies to grow. So figuring out exactly why is it that our companies, that even the good ones, either don't want not grow more, or can't grow more, is part of, I think, understanding a situation.

The reason I think, that's because these companies don't grow more, either because they don't want, or because they can't, that's why I think we have such a huge universe of micro enterprises, because if the larger enterprises are not providing good jobs, you have no choice, but to create your little unproductive little shop. So figuring out better, what type of policies can generate this space and incentives for the larger companies to connect to grow faster, to integrate into global value chains is, I think, key in solving this mystery.

For me, what worries me is that contrary to what people think, that will probably require a fairly disciplined fiscal process, because only a fairly disciplined fiscal process will allow the learning process to be helped by a competitive real exchange rate. I think that's part of the Asian miracle. Without something that holds the exchange rate competitive, a fundamental, which has to come from the fiscal side, it's going to be very hard to create this kind of overall umbrella space, for companies to take advantage of the learning opportunities.

But doing that will hit against the wall, against the social policy and distributional needs. And there is where I see the tug of war that a region will have to be battling with in the future.

MR. DERVIŞ: Thank you. José Juan, very briefly?

MR. RUIZ GÓMEZ: Yeah, very briefly. Picking up the point raised by Augusto, I think it's fascinating. I think that one of reasons that maybe this value chain and this integration has not happened, it's because Latin America, you have a gap in trust. The vulnerability of how it's going to perform, your partners, it's a very important business event in the economy.

Rule of law, security, these are MEGS that you prefer to integrate, vertically, productivity because to have the -- to depend on foreign suppliers could be extremely important, extremely risky strategy. And I think one of the reasons for having this lack of integration also, has to do with the real works to failure and success in Latin America.

The failure in Latin America is a real failure. You fail, and you are not going to have maybe another opportunity to rise to where you were; because inequality is there. This is one of the reasons that people have something similar to growth, just this concept. I don't try to do better because if I fail, I will be in a much worse off position that I am now. And to grow and to be an entrepreneur means to take risks; and to take risks in Latin America could be really a very risky activity. I think these are also very important things to keep in mind, because the private sector thinks in these terms. And I think they are right.

MR. DERVIŞ: Ernesto? Last word.

MR. TALVI: Thank you, Kemal. We ran a little bit over because this is a Latin -- a Latin Panel.

MR. DERVIŞ: Not too much.

MR. TALVI: So Brookings might make a little bit of a concession for our regional tendencies (laughter). So I'll be brief anyway.

Good times are bad times for politically complex reforms in general, usually because it is very difficult for governments to undertake politically complex and politically costly reforms at a time when things are going fine without doing anything. So the incentives are not there.

Very bad times are very bad -- are bad for reform too, because you are trying to put out the fires, as you said. But we are not going into very bad times, I think, we are going into a kind of growth recession, so these are exactly the times in which you have the incentives to try to do the right things. And this is, I think, makes a good -- it's a good example of that, and I mean it's -- it's basically, Mexico has no significant macro problems, it has a growth problem, and Peña Nieto didn't -- really important transformations that we were discussing with Alex just before we came in.

I think all of Latin America is going to converge towards the Mexican kind of dynamics. So I see reforms in the pipeline coming in. There is a huge demand for that, there's a huge demand for improving our educational systems. And in Brazil there's a huge demand now from the private sector, which makes me very optimistic on that, on abandoning long-time and long-held protection policies.

Because with TPP and the transatlantic partnership Brazil -- the private sector in Brazil now feels that they are going to become isolated if they continue with the current policies. So there is dynamics simmering there, in Brazil which is basically the only important country remaining, in order to pursue a more aggressive integration.

And I would I would like to close, trying to address what you said, Kemal. I think there's no single path for development. I mean, Asian development was very managed because these were very authoritarian regimes that actually did the trick, I think. Democratization came afterwards. We did it the other way; I mean we are now very democratic, and not very integrated, very difficult to manage from the center, things in the way that they were managed in Asia.

But then, what I see, is more like a process, and perhaps this is -- I don't know -- because of my personal preferences, of what happened in Spain and Portugal. I mean, these countries democratize first, they integrated into the European Union afterwards, and they did not, withstanding the current crisis, they developed very rapidly in every dimension as a consequence. I see that process for Latin America more likely to happen than the Asian kind of process.

MR. DERVIŞ: No. I think that's a very good point, and of course, having said, we have to finish; I'm not going to make any comment. But I think this debate is wonderful. I would like to thank, on behalf of all of us, the panelists, Alejandro, Augusto, José Juan coming, for joining us; and I also, very much, will thank my friend and colleague, Ernesto, and his team, we work together on the report, it's a very good team, some of them sitting here in the audience.

I think we have a strong ESPLA Program, a strong program on Latin America, and let me say, ever since I was a student at the London School of Economics, Latin America was always a great laboratory for economists.

SPEAKER: Is that so?

MR. DERVIŞ: You know, one hears much less about economists in Germany or in -- even in Korea, you know. Latin America is always at the cutting edge of economic debate, let's hope that it will be also at the cutting edge of real long-term growth, and I think there are some lessons learned, and there are -- and I think democracy will help, and I fully agree with you, Ernesto. Thank you very much.

(Applause)

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