

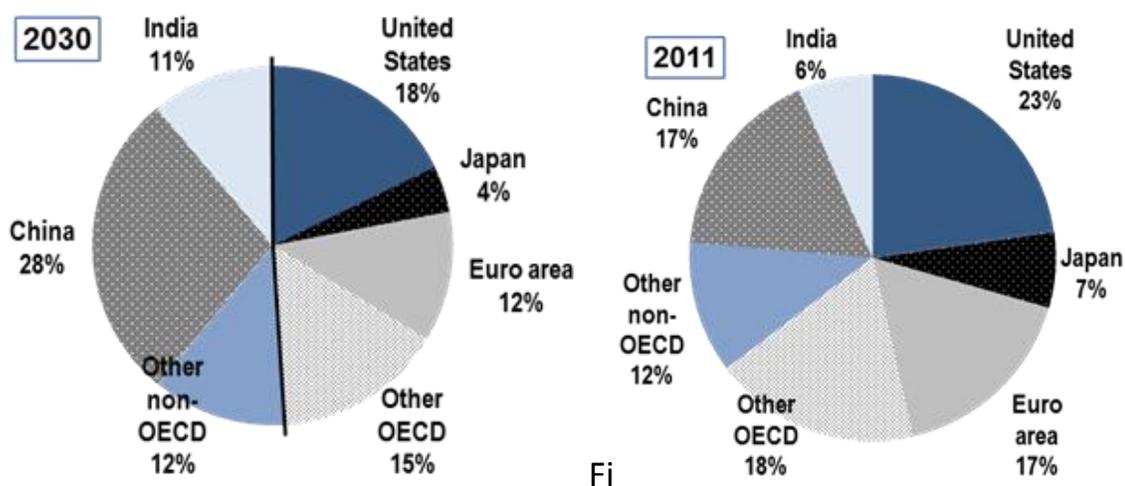
## GLOBAL TRENDS AND LATIN AMERICAN INTEGRATION

(Extracted from *Global Trends and Latin America's Future*, forthcoming, Sergio Bitar, Inter-American Dialogue, 2016)

### Displacement of Economic Power

Asia's resurgence is now so entrenched that some analysts see its global outlook as part of a post-Western world. In all the scenarios examined, the Chinese economy would surpass that of the United States before 2020. According to the OECD report, emerging countries would grow at 5 percent a year and the developed countries at 1 percent to 2 percent through 2060. This suggests that developed and emerging countries could converge in the coming decades. Moreover, the report predicts that the Chinese economy, which has already surpassed that of the European Union, will overtake the US economy in 2016. Similarly, India passed Japan in 2012 and is expected to do the same to the European Union in 2030. The OECD's baseline scenarios present a range of projections. One envisions that the output of China and India combined would surpass the OECD total in 2060. (In 2010, they accounted for the equivalent of a third of the OECD countries' output.)

Figure 1. Changes in the composition of world GDP



Source: OECD (2012). "Looking to 2060. Long Term Global Growth Prospects," Economic Policy Paper 3. <http://www.oecd.org/eco/outlook/2060%20policy%20paper%20FINAL.pdf>.

Other analyses maintain that China will surpass the United States, and that India and Brazil could overtake Japan and France, respectively, around the same time, before moving past Russia and Germany after 2020. Economist Arvind Virmani calculates economic power not only on the basis of GDP but also by using strategic assets such as investments, human capital, research capacity, and organization measured by means of per capita GDP. His scenario posits a bipolar world in 2020 and a tripolar world in 2050. According to his estimates, China will equal the economic power of the United States in 2030 and then, in 2050, the order will be China, the United States, and India—all three with similar economic power.

How developed Western countries—and Japan—are positioned in the future will depend on their ability to reduce debt, increase productivity, boost investment, advance human capital, and further technology. It will also hinge on their ability to induce immigration, lengthen working lives, and increase women's participation in the workforce so as to counteract the aging of their populations. The speed with which emerging and less developed countries converge with developed countries will depend on educational improvements, math and reading levels, implementation of good government practices, structural reforms to attract investments, stimulation of technological innovation, and investment in social welfare.

The persistence of these trends and their effect on Latin America are strategic topics for Latin American study groups and governments to examine closely. They will be relevant when defining international trade and productivity strategies.

### **US and EU decline?**

There is a widespread assumption that the global power and economic strength of the United States and the European Union will experience a relative decline. Critics of this view argue that the US economy will continue to grow and the country will retain its primacy in innovation. Its ability to create businesses and raise productivity, its population growth (in contrast to other developed countries), its attractiveness to professionals and scientists from other countries, and its political will are factors that would make a difference. Critics of the “decline” thesis also argue that US debt will

contract. They maintain that US influence will continue to dominate the coming decades, and while its past hegemony will be gone, no world issue will be resolved without its involvement. The United States could create an “intelligent power” that combines military and economic might (“hard power”) with the cultural capacity to attract and convince (“moral authority”).

Scenario building is more arduous in the case of the European Union because of its supranational complex institutions’ limited reactive ability. Fiscal deficits and an aging population lend credence to a vision of decline. More favorable scenarios predict that crisis will lead to a more powerful supranational system that assumes national functions related to fiscal, tax, and social security policies. They also assume a powerful monetary system could be consolidated, ensuring financial stabilization, and that the debt crisis would force the pursuit of policies geared toward growth and innovation, integrating markets even further, and establishing more uniform regulations and policies on labor, tax, and fiscal matters. Strengthened institutions and reinvigorated democratic procedures at the European level are also important as they may lead to a rejuvenated scenario. A moderate scenario posits economic improvement but limited political power given the enormous difficulty in managing so many languages, histories, traditions, and national sentiments.

The start of US-EU negotiations for a new agreement, the Transatlantic Trade and Investment Partnership (TTIP), plays a role in positive scenarios. As a development that will strengthen both sides, it is seen to support a scenario in which the West’s economic power grows. That could also expedite a solution to Europeans’ entangled issues. Possible outcomes from this strategic initiative, as well as the scope and speed of the agreement, should be studied and monitored by Latin American countries, especially in the context of their future role in the international landscape.

Japan, too, could recover lost ground if its economy is reactivated and if it concentrates on green-growth strategies. Japan has untapped growth potential. In particular, women’s participation in the workforce is limited and could be increased, offsetting stagnant population growth.

## China's scenarios

There are many thoughts on China's long-term path, another confirmation of the need for meticulous global monitoring by Latin America. Will China advance from absorbing foreign technologies to creating its own? Will the Chinese Communist Party be able to open society without losing control? Can China avoid military competition with the United States and its allies in the region?

Although China's growth is slowing, its influence will continue rising. In absolute terms, the size of the economy makes up for the decline in the rate of growth, generating an ever-bigger increase in GDP. China's plans for education, high rates of investment, wide technological absorption, and population growth to 2030 will bring about irreversible progress. Optimistic foresight studies assume a long period of expansion driven by political priorities focused on attainment of higher per capita income, narrowed income gaps, and a harmonious society. These studies also assume that China will not seek to supplant the United States or to compete militarily. Rather, its goal would be to expand the liberal system of international trade and investment from which it has benefited to date. Others foresee a long phase of adjustment and structural change, and a lower growth rate in the coming decade.

Less optimistic scenarios for China highlight increased labor costs and other difficulties. Some activities could relocate to elsewhere in Southeast Asia. Technological change could also spark companies to invest back in their home countries. Politically, the new Chinese professional middle classes will demand greater participation and new freedoms, raising governability obstacles for the one-party system.

A new strategic understanding between China and Russia should be brought into the picture. A so called *Turn to the East* in Russia can derive in new agreements between this 2 countries and their larger groupings. The Eurasian Economic Union (EAEU) member states may enter in the future into a grand agreement with China's Silk Road Economic Belt Fund (SREB) initiative. If they converge, a common platform may be created in order to be able to work out

their shared vision. (*Toward the great ocean 4: turn to the east*. Valdai discussion club report, Moscow, 2016)

The shift in relative power would intensify the multilateral character of the world system, in which there are fewer hegemonies but a greater risk of ungovernability. There is a growing debate about the consequences of multipolarity. Would the world system become more fragile, or more flexible and resilient? Latin American governments could also contribute to a more just and balanced global system by taking coordinated action to influence the reform of global institutions and the making of global rules.

The study of these questions and issues is vital in order to imagine the political and economic positioning of Latin America over the long term.

### **Integration and new alliances in a multipolar world**

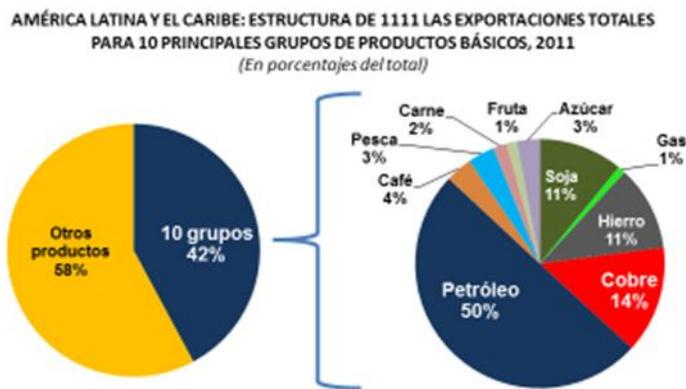
To face global forces, nations will require greater regional integration and new alliances. Five global trends will influence the international positioning of each Latin American country: a) demographic change; b) the shift of economic and political power from the West to the East and South; c) expansion of the middle classes; d) faster urbanization; and e) regional coordination. Let us consider each of these.

a) Population growth and population makeup will increase both the availability of young and educated work force and the level and composition of consumption. If countries with a youthful population can expand education and occupational training, they will enjoy a demographic dividend. **This is an opportunity for Latin American countries: to expand technical education.** They will have specialized, low-cost labor forces able to produce and export more.

At the same time, emerging middle sectors will grow and their consumption will increase. **That opens a positive scenario for Latin America. This greater demand will be marked by a larger share of foodstuffs and goods with high material content.** Foods constitute between 25 and 30% of the region's exports as shown in Figure 2. The absolute amounts an percent could grow and thus expand Latin America's trade in new products and services with higher value added.

Figure 2 Exports based on natural resources represent over 40% of Total Latin American Exports

**10 grupos de productos básicos representan el 42% del valor total de las exportaciones de la región**



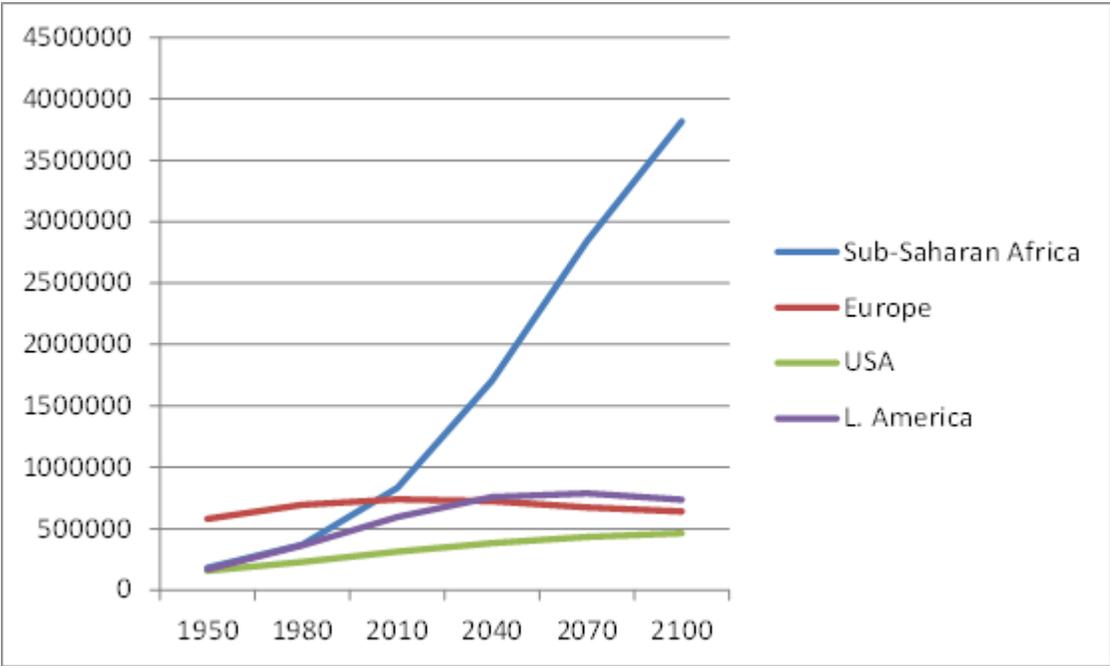
Fuente: Comisión Económica para América Latina y el Caribe (CEPAL) sobre la base de datos COMTRADE.



Population growth in Asia and Africa will open up huge markets that could be supplied by Latin America. According to UN projections, by 2050 the world population will increase by 2 billion people, half of whom will be from Africa. Close links between Latin America and Africa, an effort that Brazil has already begun, must be forged. Exploration of these markets requires detailed studies focused on the nature of this emerging composition by 2030.

That would help guide the development of new products. It would also help determine needed partnerships between Latin American companies and businesses in the host countries.

Figure 3. Total population: US, Europe and Sub-Saharan Africa (THOUSANDS)



Source: prepared by Jack A. Goldstone for a presentation at the Woodrow Wilson Center, February 26, 2013.

b) In a new scenario marked by more diffusion of economic power and two leading forces (the United States and China), **Latin American foreign policy will have to strive for a sound combination of initiatives with China (and with India, Indonesia, the Philippines, South Korea, Japan, and the Association of Southeast Asian Nations in general), as well as with the United States and the European Union.**

A strategy toward China could focus on food, energy and minerals, and on joint projects in manufacturing and infrastructure. Of importance will be how China and Latin America use their business strategies to find new ways of working and to create partnerships. Latin American countries should also establish financial links through Hong Kong and Shanghai—China’s financial

centers—and elsewhere in Asia, anticipating the internationalization of the renminbi, which is starting to operate as a global currency.

US and EU-directed initiatives should be geared toward agreements on education, energy, and the environment; trade and investment accords; and partnerships in higher education, science and technology. The decision of the United States and the European Union to conclude the Transatlantic Trade and Investment Partnership will have worldwide effects, especially if the two sides reach agreements in areas as diverse as emissions regulation, agricultural subsidies, intellectual property rights, financial services, and communications. Latin America should think about and prepare for these collaborations.

On the new map of global power, the Pacific region holds a privileged position. For Latin America, it opens a bigger opportunity. **A “convergence in diversity” approach between the Pacific Alliance (created in 2012 among Mexico, Colombia, Peru, and Chile) and MERCOSUR is a promising course.** The agreements of the Asia-Pacific Economic Cooperation (APEC) forum and the Trans-Pacific Partnership (TPP) are important and forward-reaching steps, which Latin America will have to counterbalance in order to maintain relations in line with the region’s own strategic interests with China.

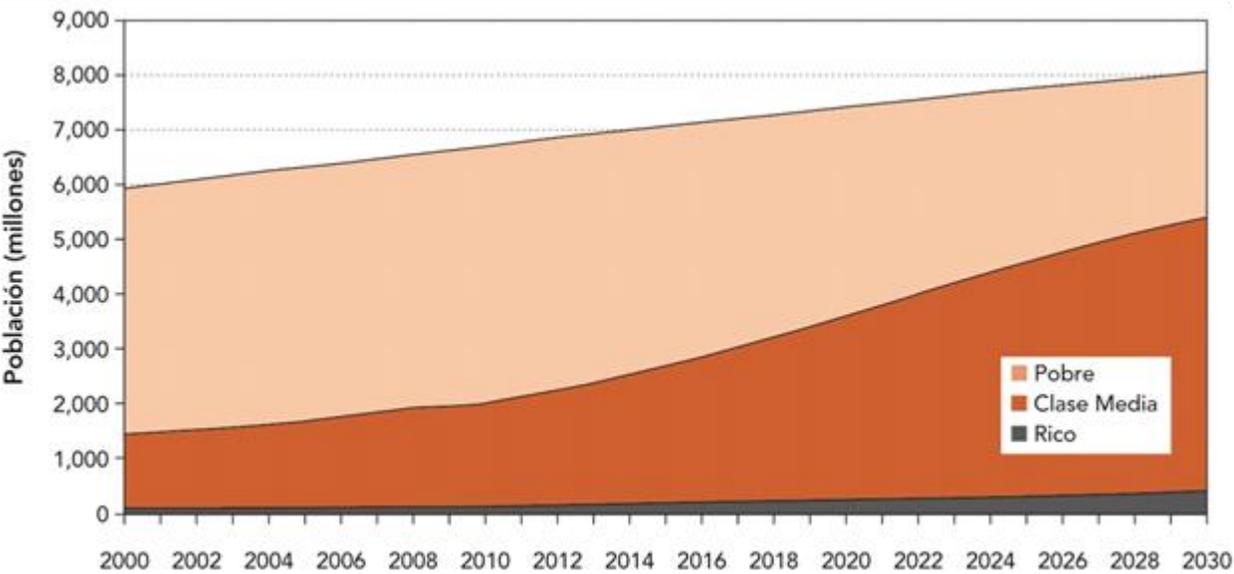
The countries of the Pacific Alliance must be members or observers of the new agreements in Asia-Pacific, such as the Regional Comprehensive Economic Partnership (RCEP), the agreement between China, South Korea and Japan, ASEAN+6, or others. To a large extent, de facto integration in Asia has emerged through value chains created by international companies (driven integration through supply chains and production networks), and legal frameworks have been created around them. These agreements will configure a new regional order in Asia in both the economic and security spheres.

The interaction among these agreements, and in particular between the two great strategic initiatives of the United States with Asia Pacific and Europe, will give rise to a new system of international rules that will chart the future course of the World Trade Organization, whose progress has been modest. Latin American countries should consider this jointly and strategically.

The Pacific Alliance countries have free trade agreements with the United States and with the European Union. **If MERCOSUR reaches an agreement with the European Union in the future, this will enhance regional integration**, opening the way to new trade agreements by standardizing criteria and setting common rules of origin among all Latin American countries. They could also pursue projects on ports, highways, bi-oceanic corridors, transportation, digital integration, and services companies. Many such projects have already been studied by the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). Lower transportation costs and greater logistical efficiency are keys to raising productivity.

c) With regard to the growth of the middle sectors, it is crucial that their new demands be studied. Attention must also be paid to distribution channels, to identifying and designing new products, and to joint action on the part of Latin American countries—undertakings that are beyond the ability of individual businesses or small governments.

Figure 4. A surge in the global middle class



Source: Kharas, Homi and Geoffrey Gertz (2010). A New Global Middle Class: A Cross-Over from West to East. Washington, DC, Brookings Institution.  
[http://www.brookings.edu/~media/research/files/papers/2010/3/china%20middle%20class%20kharas/03\\_china\\_middle\\_class\\_kharas.pdf](http://www.brookings.edu/~media/research/files/papers/2010/3/china%20middle%20class%20kharas/03_china_middle_class_kharas.pdf).

Visualizing development scenarios in China, India, and Asia more broadly can help in the exploration of options for **Latin American-Chinese and Latin American-Indian relations through 2030.**

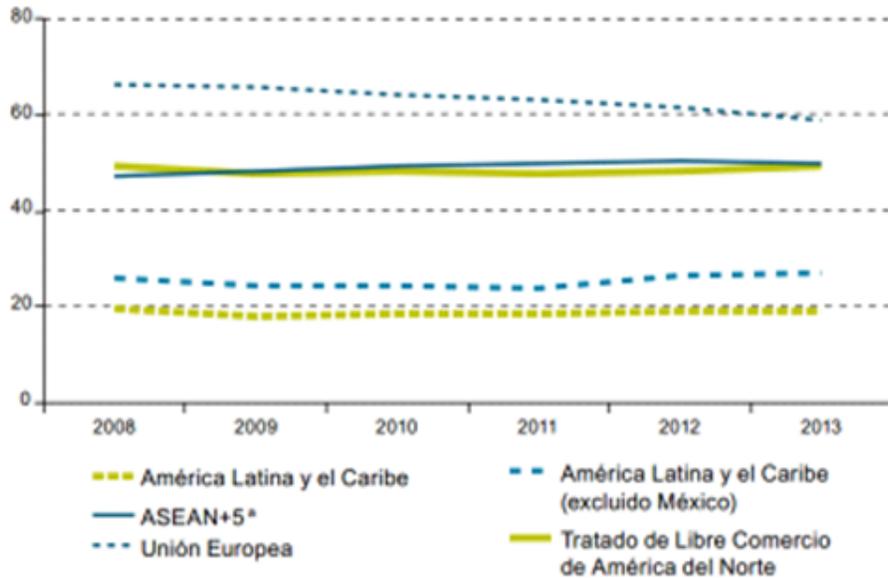
d) **Rapid urbanization and the emergence of new cities** will have an impact on Latin America's development strategies. The region's cities will have to become more efficient and competitive, and their inhabitants' quality of life will have to improve. In 2025, some 315 million Latin Americans will live in the world's 198 biggest cities (those with more than 200,000 inhabitants); it is estimated that those cities will account for 65 percent of GDP.

Urbanization will bring significant political, economic, and social change. Megacities will need large investments in order to improve services and to compete with other cities that attract international activities. Medium-sized cities will develop their potential and start planning for the future. Long-term urban planning should be a priority. In countries such as India, whose urbanization rate barely exceeds 30 percent, a mass flow of people to the cities is expected, with the subsequent urgent need for spatial planning. In Latin America, the already high rate of urbanization will call for rectifying the problem of informal settlements, which in 2014 housed 30 percent of the urban population.

e) **Strengthening regional agreements**

Each of these factors leads to shifts in power that give regional integration a predominant role. Such a conclusion is valid for economic reasons, and also because of security considerations.

Figure 5. Selected groups: share of intra-group exports in total exports, 2008—2014 (%)



Source: data from the Economic Commission for Latin America and the Caribbean (ECLAC), based on statistics from the United Nations, COMTRADE, and nations in ASEAN.

Intraregional trade in Latin America and the Caribbean, as a percentage of total exports, has always been below other regional agreements, as shown in Figure 28. Two recent trends are the lower rate of growth of world trade compared to world economic growth, and the faster growth of trade in services compared to goods. These two developments offer opportunities for regional integration. **An enlarged and integrated market governed by congruent regulations would attenuate impacts originating in other parts of the world.** The growth of Latin America's middle classes will expand this internal market appreciably, making regional integration more attractive. And integration would facilitate the expansion of Latin American businesses to other countries.

The pace of progress on this front will depend on future relations between Mexico and Brazil. If they manage to give priority to their common interests, this convergence will serve the other Latin American countries. If not, all will be weakened.

Systematic examination of world trends would also shed light on which alliances are more beneficial. Governments and international organizations

would benefit from encouraging such studies, creating permanent venues for analysis.