REMARKS BY THE PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK, LUIS ALBERTO MORENO, ON THE LAUNCH OF THE BOOK "THE DECADE OF LATIN AMERICA AND THE CARIBBEAN: A REAL OPPORTUNITY"

Version for distribution

Buenos Aires, Argentina

May 27, 2011

To be optimistic about the future of Latin America can be risky. Twentieth century history suggests that it is better to be skeptical—or at least cautious—in the face of overly enthusiastic predictions about our region's outlook.

However, I can assure you that my optimism is not only sincere but, paradoxically, supported by history.

We all know that Latin America has evolved. But the evidence of change is often contradictory.

We are bombarded with daily signals traveling at the speed of Twitter: oil prices, the fluctuations of the dollar, the impact of a strike, murder rates, opinion polls.

These fleeting indicators fuel what might be called a "sense of crisis." This natural and very human tendency to read the latest news and think "nothing's changed" or even "we're going from bad to worse."

But in my job I have the privilege of being able to perceive another level of change. First, because I travel all the time and can compare the outlooks of hundreds of leaders in the public and private spheres and the academic world. Second, because I have direct access to research by the IDB and other similar institutions.

And the unavoidable conclusion is that our region is evolving in ways we do not always perceive. And that we have been capable of changing much faster than many people think.

Think back to 1990, for example. Two decades ago almost everyone here today was an adult working at their current profession. In fact, I'm sure that many of you recall that year in great detail. In 1990 the Internet was born, Nelson Mandela was released from jail, and Violeta Chamorro became president of Nicaragua.

I suspect that at that time and in any of the 20 tumultuous years that followed, the "sense of crisis" did not abate, nor did the perception that Latin America was incapable of changing.

But let's look at the facts. The differences between our countries are great, but if we imagine for a moment that Latin America and the Caribbean were a single country, we would see that…

- Inflation fell from a regional average of almost triple digits in 1990 to about 7% in 2010.

- The region's foreign debt was 28% of Latin America's gross domestic product. Twenty years later, it was about 10%.

- Per capita income in 1990 was US$5,200 of purchasing power. It had more than doubled by 2010 to US$11,200.

The results in the social sphere were no less noteworthy:

- In 1990, one half of the population was poor. Today the figure has fallen to one third.

- Drinking water coverage increased from 85% to 93% and households with electricity from 70% to 93%.

- The infant mortality rate fell by more than half, from 52 to 23 per 1,000 live births.

- In education, net primary school enrollment rose from 86% to 94%; in secondary school it surged from 29% to 71%; and in post-secondary school it climbed from 17% to 38%.

Meanwhile, the region's trade outlook was changing unexpectedly…

- The average customs tariff fell from 45% to just 9%.

- In 1990, the United States accounted for 60% of our foreign trade and Asia for just 10%. Today, trade with the United States has dropped to 40% of the total, while trade with Asia has doubled to 20%.

- The region's large enterprises, which for decades had focused primarily on domestic markets, committed to globalization. Today there are 66 multilatinas with operations in every corner of the globe.

- And trade among our own countries, which amounted to just US$18 billion in 1990, rose tenfold to US$180 billion in 2010.

Seen from another angle, over the last 20 years—despite the missteps and setbacks that we all remember—Latin America has made enormous strides and improved on a scale that few would have believed possible.

Perhaps the most important achievement, and the most difficult to summarize, is the turnaround in fiscal and financial management undertaken by many of our

governments. These institutional reforms laid the groundwork for the stability and strengthening of our financial systems. There is no need to reiterate the elements of this transformation, as they are well known.

The biggest test came in 2008, when the global financial crisis threatened to strike us, as it had so many times before. The entire world witnessed how our region weathered the crisis without major damage. And our rapid economic recovery afterwards was the definitive sign that Latin America and the Caribbean were no longer the same as before.

There can be no doubt that external factors, specifically Asian demand for our raw materials, were and will continue to be a key variable in our region's potential.

But unlike the fleeting booms of the past century, today we are experiencing a radical reordering of trade relations between rich and emerging economies. So-called South-South trade is not a passing phenomenon. Analysts agree that this trend will transform the flow of goods, investment, and knowledge for decades to come.

Today our fiscal position and growth rates are better than in many industrialized countries. Together with Asia, we are the new driver of world economic growth.

We have 25% of the planet's arable land, 10% of its oil reserves, and 40% of its copper and silver reserves.

And unlike other emerging regions, like the Middle East, which have just begun the complicated transition from authoritarianism to political pluralism, we Latin Americans have stable democracies that are growing stronger.

In my opinion, all of this leaves us on the threshold of a historic opportunity.

What would happen if we aimed to double our regional economic production by 2025?

This is not an abstract target. If we attain it, we would trigger a chain of virtuous effects that would change Latin America and the Caribbean forever:

- *Doubling our economic production in 15 years would mean that our people's average income would also double in virtually the same timeframe.*

- *If that could be achieved, poverty afflicting our region would fall from 32% to just over 10%. This would allow us to finally close the terrible social gap that still persists in our societies, despite the gains I just mentioned.*

- *Seen from a different perspective, if we were to attain this goal, the middle class in Latin America and the Caribbean would grow to include more than 500 million or 75% of the total population.*

In short, our countries would achieve something that not long ago seemed far-fetched: join the group of societies that have ensured a decent quality of life for the majority of their citizens.

What must be done to double the regional GDP by 2025?

The answer, according to our economists at the IDB, is that we need to grow at a sustained annual rate of 4.8%.

This is an ambitious pace, but entirely within reach. It is our average rate for the last seven years, for example, except for 2009 when the global recession began. It is well below the growth forecast for this year in several of the region's countries. It is even lower than our region's growth rate in the 1960s and 1970s.

This challenge, of course, lies in sustaining that rate for 15 years, but at the IDB we are convinced that it is feasible—provided that we make up our minds to overcome five major obstacles.

First, low productivity. Last year, the IDB published a study that challenged the traditional belief that low growth in the region was due to lack of investment.

The study concluded that slow growth was really due to poor efficiency in our use of human and material resources. Except for mining and agriculture, productivity

in Latin America has stagnated for the last 15 years. Perhaps the biggest surprise was that that services—which provide 70% of the region's jobs—lag the furthest behind in productivity. Here, I am referring to sectors such as transportation, health, municipal services, and retail businesses.

To grow, we need to take advantage of the demand for our raw materials to finance improvements in productivity, so we can compete in new knowledge-based services and industries. This also implies combating informality, because low productivity in services is largely due to the proliferation of poorly-performing companies in the informal sector.

As long as half of our workers continue to work informally, and we fail to eliminate the combination of perverse incentives that perpetuate this phenomenon, achieving the target I propose will be more difficult.

Second, education and innovation. Here, again, the challenge is not so much spending or coverage, but rather quality and results. In fact, in large countries like Mexico, Brazil, and Argentina, public spending on education is comparatively high. The problem is that the results we obtain from this investment are quite poor. International tests show that students in several countries that are much poorer than ours score better in science and mathematics. We need a revolution in teacher training and new models to drive better academic achievement in our schools and universities.

As many studies have already shown, Latin America is lagging behind in science and innovation. Argentina has a distinguished tradition of leadership in these areas, and just this morning I had the opportunity to visit the site of the future Giol science and technology hub in Palermo. But in the region, we need to triple our investment in research and development if we want to compete with other emerging economies.

Third, shortcomings in infrastructure. Although the private sector spent US$474 billion on infrastructure projects in our region between 1990 and 1997, this flow has slowed in recent years. Logistics costs in our countries continue to

range from 18% to 34%, compared to an average of 9% in the OECD countries. At the same time, the frequency of extreme weather events—such as droughts that affect hydroelectric power generation or floods that damage roads and bridges—is increasing. According to our calculations, to close these gaps and build infrastructure able to withstand the rigors of climate change, Latin America needs to spend the equivalent of 6% of its GDP on infrastructure.

Fourth, violence and crime. This is, perhaps, the most elusive and thorny challenge facing us. As you well know, it is the number one concern of our people. There are no magic formulas for solving it. However, many cities in our region, particularly in my country, Colombia, have found a way out of the labyrinth. It is time to acknowledge that we have a serious problem, put it at the top of our public agenda, and adopt solutions that have borne fruit in other parts of our region.

Lastly, much remains to be done in the area of macroeconomic policy. The advantageous external environment we are enjoying today does not eliminate the risk of sharp fluctuations in the prices of our raw materials. We can also be affected by sudden stops in capital flows caused by crises in other parts of the world. The challenge is to design mechanisms, such as stabilization funds, that enable us to dampen the impact of external shocks and finance the public investments we need to boost productivity. Such mechanisms can also help to ease pressure on exchange rates and the effects of the so-called Dutch disease.

Of course, none of these proposals is new.

What is new is the conviction that none of these obstacles is big enough to prevent us from achieving the target of doubling our production in just over a decade. And the certainty that our region is capable of finding solutions inspired by our experience and our own vision for the future. This is a proposal designed in Latin America by Latin Americans, for the progress of our peoples.

It is a new vision for a renewed Latin America. A region that is more sure of itself, knows more, and has greater confidence. A region that has learned from its

failures and mistakes and is now ready to make the most of its opportunities and fulfill its promise.

Thank you very much.