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Original article

The myth of the 'Latin American decade'

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Abstract:

This paper analyzes Latin American performance over the period 2003-2014 with the purpose of evaluating two ideas: whether this period constituted so-called 'golden years' and whether the 2010s were likely to be a 'Latin American decade' This term was used several times by scholars, international organizations, and market experts, claiming that the region was finally on the right track after two decades of disappointing economic performance. However, the data shows that the claims were overoptimistic. We compare the region's 2003-2014 performance with that in the 1980s and 1990s, evaluate how the region performed in the sub-periods 2003-2007 and 2008-2014, and compare the region's 2003-2014 indicators with those of other selected developing regions during the same period. We show that the period in question was a 'golden decade' only when compared with the region's own performance during the previous two decades, but not when compared with other developing regions. Moreover, we notice that the lack of structural change during this decade implies weak development performance for the region in the near future.

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Latin America received significant attention in the recent past thanks to its good economic performance. Some authors even claimed that the first decade of the 2000s – or at least part of it – were 'golden years' for Latin America (LA).[1] Others even suggested that the 2010s were going to be the 'Latin American decade'.[2]

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[1] We generally use the acronym LA to refer to Latin America, but some statistics relate to the Caribbean – and hence the use of the acronym LAC, to include the latter. Given the relative size of the Caribbean, the statistics for LAC tend to be fairly similar to those for LA.

[2] See, for instance, Talvi and Munyo (2013) for the idea of a golden period in the first decade of the 2000s. For the idea of a 'Latin American decade' in the 2010s, see Moreno (2011). Both works will be discussed in the first section.

Were these analyses overoptimistic? Do the data corroborate the hypothesis of a golden period or of a 'Latin American decade'? This paper comparatively evaluates Latin America's recent performance based on a series of statistics, namely GDP growth rates, unemployment levels, inflation rates, poverty ratios, current account balance (as a percentage of GDP), and net external debt (as a percentage of both GDP and exports). Furthermore, we look at two variables linked to structural change, namely the number of approved patents and the investment in research and development (R&D).

The paper firstly compares Latin America's performance in 2003-2014 with its own results in the 1980s and 1990s. It then splits the period 2003-2014 in two sub-periods: *i*) the pre-North Atlantic financial crisis[3] years, namely 2003-2007; and *ii*) the crisis and post-crisis 2008-2014 period, before the collapse of commodity prices and the deep recession that affected two important South American economies, Brazil and Venezuela.[4] The records of both sub-periods are then compared with Latin America's own performance in the 1980s and the 1990s. It is important to note that our analysis stops at 2014 because from 2015 onwards the economic slowdown of the region was very marked – which, of course, makes the idea of a possible 'Latin American decade' even less appealing.

Finally, Latin America's performance in 2003-2014 is compared to that of other developing areas during the same period. In particular, LAC's performance is compared with the following regions, the compositions of which are indicated in the appendix: *i*) emerging and developing Asia (EDA); *ii*) Middle East and North Africa (MENA); iii) Sub-Saharan Africa (SSA); and iv) the Commonwealth of Independent States (CIS). They will be identified hereafter by their acronyms.

The paper concludes that the periods associated with the so-called 'Latin American decade' were good only when compared with the region's own performance during the previous two decades, but not when compared to other developing regions. More importantly, it argues that the lack of structural change in the region during the growth spurt indicates that the region is very likely to keep experiencing a weak development path in the near future.

Our study is based on the analysis of macroeconomic variables. However, it is noteworthy that the overoptimistic views we analyze here lack a consideration of the micro/macroeconomic interrelations – a crucial feature when analyzing economic growth and development in emerging economies. This refers to how the production structure of the economy affects economic performance and vice versa. It is paramount to analyze them together as essential elements for sustained growth. Following a statement by one of us: "[t]he key to rapid growth in the developing world is thus a combination of strategies aimed at the dynamic transformation of production structures with appropriate macroeconomic conditions and stability, in the broad sense of the latter term" (Ocampo, 2005, p. 32).

[3] Although the 2008-2009 financial crisis had global effects, it was concentrated in North America and Western Europe. Hence, the term 'North Atlantic financial crisis' is more appropriate than the more commonly used 'global financial crisis'.

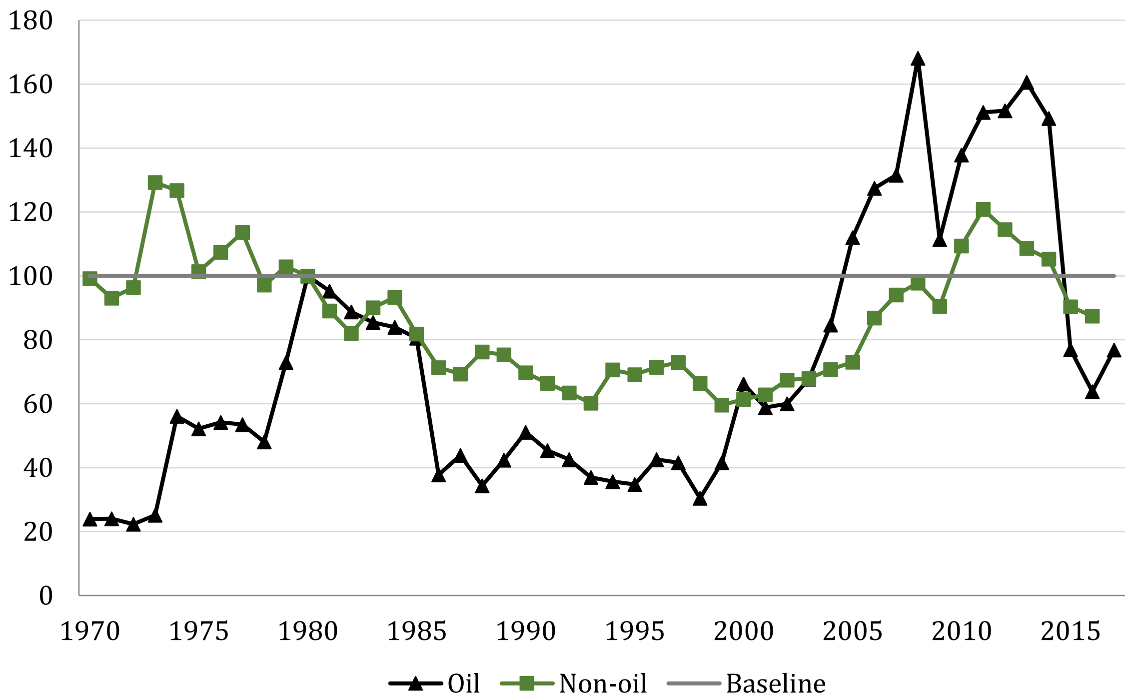
[4] According to the UN Economic Commission for Latin America and the Caribbean (ECLAC), Brazil's GDP fell by 7.3% in 2014-2016, and Venezuela's by 25.9% in 2014-2017. The IMF estimates that the fall of Venezuela's GDP was even stronger: 33.8%.

1. The idea of a 'Latin American decade': a summary

During the 1960s and the 1970s, Latin America grew at an average of 5.5% a year.[5] However, during the 'Lost Decade' of the 1980s, most countries in the region suffered from a mixture of debt crises, high inflation rates, and very modest economic growth rates. During the 1990s, macroeconomic stability was back, but growth rates remained modest in general. Moreover, some important Latin American countries experienced severe balance of payments difficulties after the crisis that erupted in East Asia in 1997.

During the 2000s, and particularly since 2003, Latin American countries faced a very positive external environment. First, commodity prices went up. As figure 1 shows, real commodity prices first experienced a marked increase between 2003 and 2008.[6] After a fall during the North Atlantic crisis, they reached a new peak in 2011. Although the index fell in 2012-2016 for non-oil commodities and in 2014-2016 for oil, the 2016 levels were still above those reached between the mid-1980s and early 2000s, and increased somewhat in 2017.

Figure 1 – *Index of real commodity prices* (*1980 = 100*)

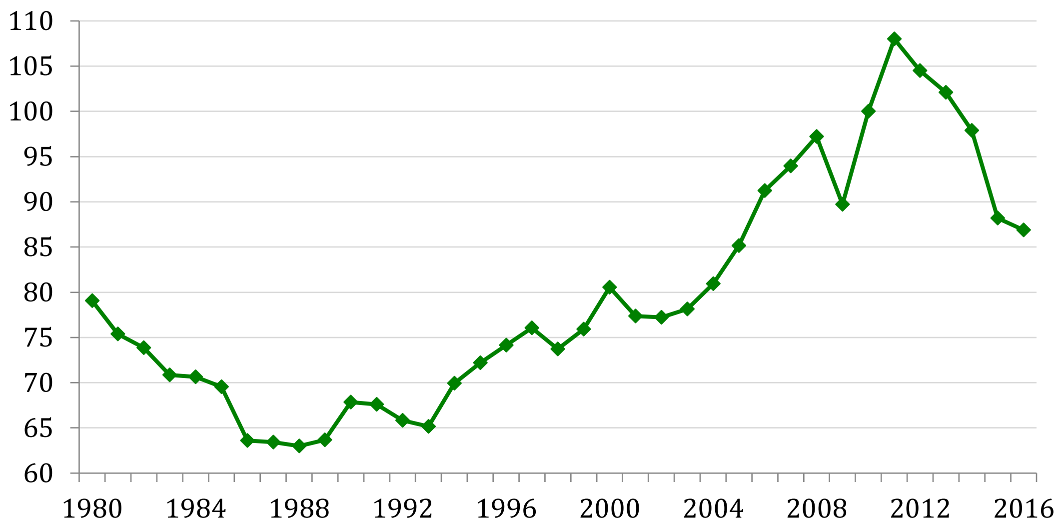


Source: Ocampo and Parra (2010), and updated on the basis of same methodology. Commodity prices are deflated by the Manufacturing Unit Value estimated by the World Bank (updated for recent years using UN data, available at http://data.un.org/).

[5] In the 1960s, LAC grew at an average rate of 5.4% and, in the 1970s of 5.6% (Moreno, 2011, p. 20).
[6] Erten and Ocampo (2013) argue that there were four commodity *super-cycles* of around 30-40 years for the period 1865-2010. The fourth super-cycle started precisely in 2004; its upward phase ended in 2014, and is now in its downward phase.

As most countries in the region (and particularly in South America) are commodity exporters, Latin America benefited from this increase in commodity prices. More specifically, the commodity prices boom translated into a significant improvement of the region's terms of trade, with peaks in 2008 and, particularly, in 2011 (see figure 2). After that, there was a slow and then a fast decline in 2015-2016. However, commodity prices remain at a higher level than the levels experienced during the first years of the decade.

Figure 2 – *Evolution of terms of trade in LAC* (*2010 = 100*)



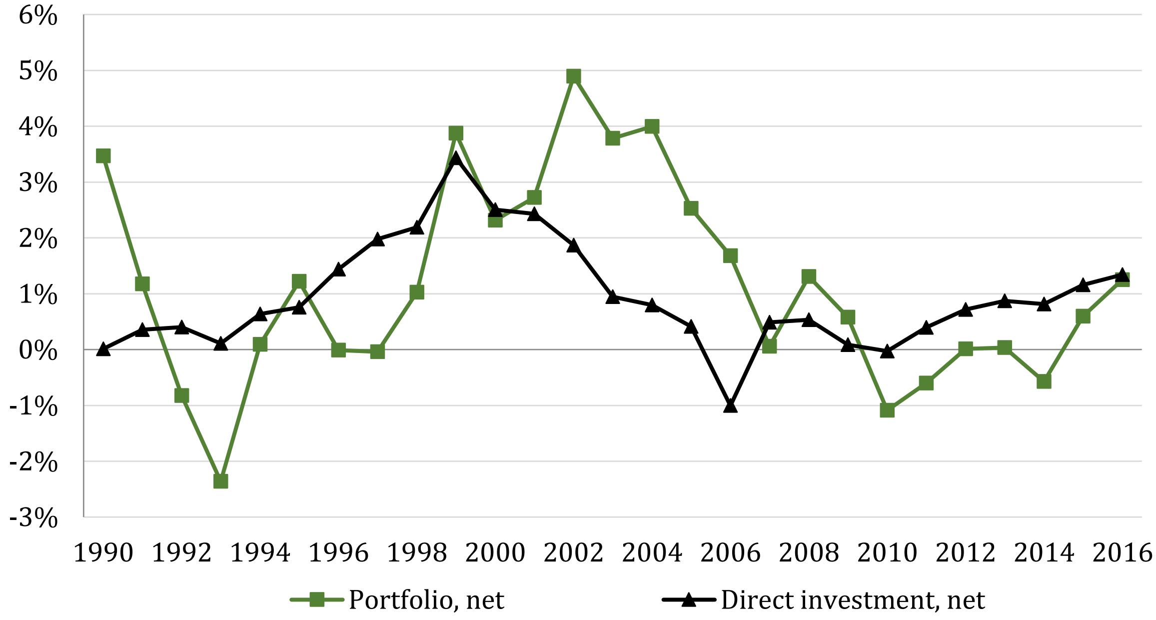
Source: based on data from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), available at http://estadisticas.cepal.org/cepalstat/

It is important to note that this spike in commodities prices – and hence the improvement of the terms of trade—can be attributed, among other things, to the impressive growth of China.[7] However, the 'Chinese miracle' did not affect all the countries in the region uniformly. For Mexico, Chinese manufacturing competition in the US market led the country to remain below the LA average growth during the 2000s. Since the entry of China in the WTO, some authors argued that Mexico could be one of the countries that would be negatively affected (Dussel, 2005). Utar and Torres Ruiz (2013) analyzed the effects of Mexican-Chinese competition in the US market. Using data from 1990 to 2006, their empirical analysis reveals a substantial effect of intensified Chinese competition on the Mexican '*maquiladoras*'.

The 2000s were also a period of abundant international liquidity. Latin America also benefited from this fact, as reflected in capital inflows (see figure 3). Net direct investment and portfolio flows were positive throughout most of the 2000s, particularly in the first case.

[7] Yu (2011), for instance, analyzed how the composition of growth in China, particularly high investment rates that support industrialization and urbanization, have contributed to a large and growing demand for commodities over the last decade.

Figure 3 – *LAC's net capital flows* (*% of GDP*)



Source: based on data from the IMF, *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx

The countries of the region did not miss the opportunity provided by such a positive external environment and experienced a growth spurt during the 2000s. In most cases, growth acceleration was followed by poverty reduction and improved income distribution. This led, in turn, to the ascent of the middle class as a share of total population[8] (Penfold and Guzmán, 2014, pp. 21-26). Furthermore, these transformations happened in a context of low inflation rates. This process led to a growing enthusiasm with Latin America, based on which the press, and some multilateral institutions and think tanks started to talk of a 'Latin American decade'.

According to the *Financial Times* and *The Economist*, the label the 'Latin American decade' was first proposed in 2010 by Sir Martin Sorrell, a British adman. His idea was that the 2010s were going to be "the decade of Latin America".[9] Following this idea, *The Economist* made a special report on the region in September 2010. The special report's articles pointed out some problems – like slow productivity growth – and the need for further reforms.[10] However, the tone was mostly positive.

The most important endorsement of the idea of a 'Latin American decade' was perhaps that made by the President of the Inter-American Development Bank, Luis Alberto Moreno. In a May 2011 report, Moreno argued that there were plenty of improvements in the region throughout the 2000s and that there were several reasons for optimism for the 2010s. He

[8] In Penfold and Guzmán's study, the low-income groups correspond to individuals with daily income levels below 4 USD, on a Purchasing Power Parity (PPP) basis. Above them, come what they call the vulnerable group, whose daily income levels are in a range between 4 and 10 USD on a PPP basis. The middle class is constituted by those with an income above 10 USD on the same basis (Penfold and Guzmán, 2014, p. 17).

[9] See Rathbone (2013), and "Nobody's Backyard", *The Economist* (2010a).

[10] See, for instance, the articles: "A Latin American Decade?" and "So Near and Yet so Far", *The Economist* (2010b; 2010c).

underscored that the 'Latin American decade' was not certain, and that it would only be achieved with good policies. However, he strongly believed that there was a real window of opportunity for this 'Latin American decade' to become a reality, and that the continent was prepared for that challenge (Moreno, 2011, pp. 147-152).

According to his analysis, there were, on the one hand, domestic reasons for optimism in most countries. For instance, macroeconomic policies and banking and fiscal institutions were sounder than in the past, meaning that the region was better prepared to face crises (Moreno, 2011, pp. XIII-XVI and 147). On the other hand, the prospects of the external sector also seemed to be favorable. It was believed that commodity prices and the world demand for natural resources would continue to be strong. Hence, as the region is an important commodity exporter, this meant a positive external scenario (Moreno, 2011, pp. XVI, 34 and 147).

The idea of a 'Latin American decade' soon found supporters. The then Colombian president, Juan Manuel Santos, declared in a conference at the Economic Commission for Latin America and the Caribbean (ECLAC) headquarters in August 2011 that "this can and should be the decade for Latin America."[11] Some specialists also embraced this idea. For instance, a slightly optimistic position was defended by Cárdenas (2011). He stated that it was still an open question as to whether or not Latin America would waste or benefit from the favorable environment at the moment. Nevertheless, he also believed – as the title of his article suggests – that the 2010s were a *once-in-a-lifetime opportunity for Latin America*. Firstly, he pointed out a demographic opportunity thanks to the projected decline in the dependency ratio until the 2020s. Secondly, he believed that the favorable external environment of high commodity prices and low interest rates in the United States would last for a few more years, still giving the countries of the region a chance to adjust their economies before a change in this positive scenario. These adjustments meant, for instance, increasing savings and investments in human capital and R&D.

A similar position was defended by some World Bank analysts, notably by Tuluy (2012). He claimed that there were some challenges ahead for a 'Latin American decade' to become a reality, including "improving productivity, value chains and innovation". However, he was confident that "conditions were ripe for a 'Latin American decade' in the 2010s", thanks to the achievements stemming from the precedent decade like "commodity-led economic growth and poverty reduction" (Tuluy, 2012).

However, it is worth noting that some analysts always remained skeptical about the chances of a 'Latin American decade' in the 2010s. For instance, Velasco (2011) argued that the favorable external scenario was the most important factor for the region's good performance. Similar periods of euphoria happened in the past during favorable external environments, but they ended in crises when the scenario reverted. In this regard, he was concerned about the way fiscal policy was being managed during the growth years.

Ocampo (2012) also pointed out that the external environment was the most important driver of LAC's economic growth in the 2000s. In this context, he believed that the good external conditions were almost over, especially considering that world trade was losing its dynamism, and that the upward phase of the commodities *super-cycle*[12] seemed to have reached its peak. More importantly, he argued that a model which could foster economic

[11] See https://www.cepal.org/en/pressreleases/can-and-should-be-decade-latin-america (accessed 13 January 2018).

[12] According to Erten and Ocampo (2013, p. 1), "Super-cycles differ from short-term fluctuations restricted to microeconomic factors in two ways. First, they tend to span a much longer period of time […]. Second, they are observed over a broad range of commodities".

growth would have to focus on productive sector strategies aimed at promoting technological upgrading, but that this had not been the case under the orthodox export-led growth model that Latin American countries had adopted since the 1990s.

In fact, the external scenario started to change possibly sooner than was expected by almost everyone. In 2012-2013, China's economy began to slow down and commodity prices (particularly for non-oil goods) started to decline. As most of the Latin American countries experienced a growth deceleration during this period, the chances of a 'Latin American decade' became more and more unlikely. A growing sense of pessimism regarding Latin America has spread across the press and academia since then.[13]

In the wake of harder times, there was a new way of discussing the idea of a 'Latin American decade'. As the good prospects for the 2010s vanished, it became clearer that the so-called 'Latin American decade' had been perhaps the first decade of the 2000s. Talvi and Munyo (2013) seemed to suggest this point. They deemed the period from the third quarter of 2003 to the third quarter of 2008 to be the 'golden years' of Latin America. During this pre-Lehman crisis period, the seven largest Latin American economies[14] (LAC-7) grew at an average rate of 6.6%. By contrast, they termed the 2012-2013 decelerating period the 'cooling-off' (Talvi and Munyo, 2013, pp. 1 and 4-5).

Talvi (2014) later suggested a slightly different version. He divided the 2004-2014 period into two sub-periods: i) 2004-2011, a phase in which LA-7[15] grew 6.1% per year on average (excluding the financial crisis interruption), and ii) the cooling-off period that started in 2012 (Talvi, 2014). However, both in Talvi and Munyo (2013) and in Talvi (2014), the main argument was that the 2010s were far from brilliant. Moreover, the period of good performance was already over in 2014, no matter if this good performance phase was meant to be the pre-Lehman crisis period (2003/III-2008/III) – as in Talvi and Munyo (2013) – or the 2004-2011 period – as in Talvi (2014).

For this paper, we suggest a different chronology: 2003-2007 and 2008-2014. This division is close to the one proposed in Talvi and Munyo (2013) and thus different from the one proposed in Talvi (2014). We believe that using 2008 as the turning-point year is the best option because the 2008-2014 period was mostly of slower economic growth. It also coincides with the peak year of the North Atlantic financial crisis. There was high growth in 2010 but only after a strong slowdown in 2008-2009 (even a recession in some countries), with a new slowdown already starting in 2011. The next sections will analyze Latin America's performance prior to and after the pre-North Atlantic financial crisis.

2. Latin America's performance over recent decades

This section will use only data from LAC countries and aims to: i) compare the recent period (2003-2014) with the 'Lost Decade' (1980-1989) and what we will call the 'Neoliberal Era' (1990-2002), and ii) present the indicators for the most recent decade (the 2000s), but also dividing it into two sub-periods, 2003-2007 and 2008-2014. In terms of the data, we will use GDP growth, the unemployment rate, inflation rates, and poverty ratios as performance indicators. Furthermore, due to the importance of the external sector, we also use two

[13] See, for instance, Rathbone (2013; 2014).
[14] Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
[15] See footnote 4 for the differences between LA and LAC.

indicators of external vulnerability: the current account balance (percentage of GDP) and the net external debt (as percentage of both GDP and of exports).

We divided the recent decade in two sub-periods due to the North Atlantic financial crisis that started in mid-2007 with the sub-prime crisis in the US and became severe after the collapse of Lehman Brothers in September 2008. Even though the crisis originated in developed countries, Latin America and other emerging markets also suffered its repercussions.

We analyze the region's performance in the selected indicators when compared to its record during the previous two decades. We conclude that the region presents better indicators over the 2000s when compared with the previous two periods. Meanwhile, the first half of the decade presents, in general, better indicators than after the North Atlantic crisis, especially when it comes to the GDP growth rate and external sector indicators.

We start the analysis with the two most common macroeconomic indicators: GDP growth and inflation. Table 1 presents the relevant information. The most recent period shows a robust increase in GDP growth, which almost doubles that achieved during the Lost Decade and exceeds substantially that of the Neoliberal Era. Additionally, population growth decreased significantly from the 1980s to the present: from over 2.0% per year in the 1980s to 1.2% during 2003-2014. Hence, when analyzed in per capita terms, GDP growth exhibited an even more positive result in the 2000s.

Regarding the two sub-periods within the most recent decade, the table shows that the first sub-period (2003-2007) showed the best performance. The average growth in the sub-periods was 4.9% and 2.8%, respectively. This represents a significant decline in growth. Indeed, the second sub-period of the recent decade shows an average growth similar to the other periods, especially the Neoliberal Era.

Inflation, one of the main problems of the first two decades of the sample, remained under control during the recent period (2003-2014). The first two periods in table 1 show an average inflation of 138.3% and 103.5%, respectively. In contrast, during the most recent decade, the average inflation was only 6.5%, without a significant difference between the two sub-periods. Hence, even though we need to consider some exceptions to the rule – particularly Venezuela –, it can be said that there was a significant improvement in inflation management.

Table 1 – *GDP growth and inflation* (*average for the period*)

	GDP growth	**Inflation**
1980-1989	2.1%	138.3%
1990-2002	2.6%	103.5%
2003-2014	3.7%	6.5%
2003-2007	4.9%	6.9%
2008-2014	2.8%	6.3%

Source: based on data from the IMF, *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx

The poverty ratio is the indicator that presents the most remarkable performance during the recent decade. Among the many existent poverty measures, we opted to use in table 2 the World Bank's Poverty headcount ratio indicator of $1.90 a day (2011 PPP) (percentage of population). The basic advantage of this indicator is that it can be used for international comparisons, as it is available not only for Latin America, but also for the other developing regions. In any case, a similar story can be told with an alternative poverty indicator, ECLAC's headcount ratio, but in this case international comparisons are not available (see table 3).

As table 2 shows, the poverty ratio, measured by the World Bank, remained around 22% during the Neoliberal Era,[16] but shrank to 7.6% on average during 2003-2013. In 2014, this number declined to 4.9%. In other words, the region experienced a stunning decrease of the poverty ratio.

Regarding the two sub-periods, the region was successful in diminishing both indexes. From 2003 to 2007, the ratio declined by 1.1 percentage points per year. Meanwhile, from 2008 to 2014, the decrease was only of half a percentage point per year. This indicates that even though the region kept improving in this regard after the North Atlantic financial crisis, the pace was slower.

In terms of unemployment rates, there are only data for the region for the period 1991-2014. The average unemployment rate for the 2000s was only slightly below that of the Neoliberal Era, but there are significant variations in the trends during both periods. While in the 1990s the unemployment rate increased, the indicator experienced a sharp drop during the most recent decade. Table 2 presents the average for the periods and in parentheses the rate of change during the different periods (difference between the last and first years of the sample).

Looking at the two sub-periods (2003-2007 and 2008-2014), unemployment rates continued to decline during the second sub-period, albeit at a slower pace. Due to the high initial levels inherited from the Neoliberal Era, the average for the first sub-period is 9.2% and it declined to 7.1% during the second sub-period. Despite a small spike in 2009, due to the impacts of the North Atlantic financial crisis that brought the unemployment rate from 7.3% to 8.1%, there was no other year when unemployment rates rose. As in the case of the reduction in poverty, it is noteworthy that the pace of improvement in terms of employment levels decreased significantly after the crisis.

Table 2 – *Poverty ratio and unemployment* (*average and percentage change in the period*)[17]

	Poverty ratio	**Unemployment**
1990-2002	21.8% (−1.7%)	9.7% (+49%)
2003-2014	7.6% (−59%)	8.5% (−45%)
2003-2007	10.3% (−1.1% PY)	9.2% (−35%)
2008-2014	5.9% (−0.5% PY)	7.1% (−14%)

Note: for the poverty ratio, 2010 is the last available data; for unemployment, there is no indicator for the region before 1991.
Source: based on data from the IMF *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx, and the World Bank database, available at https://data.worldbank.org/

[16] We eliminated the World Bank estimates for the 1980s from table 2, as they showed a decline in poverty in the midst of the Latin American debt crisis. In contrast, the ECLAC numbers shown in table 3 indicate a significant increase in poverty during that decade.
[17] See footnote 16.

As previously noted, we used the poverty indicator that allowed us to compare Latin America with other regions (which will be done in the next section). Alternatively, ECLAC[18] provides its own estimates for the region's poverty and extreme poverty. In table 3, we present the data – together with unemployment data from the World Bank – for selected years. It may be noted that the region experienced a peak in both poverty and extreme poverty in 1990, at the end of the Lost Decade. During the following decade, the indicators fell, but remained at very high levels –with unemployment peaking in 1999– and then started to decrease when Latin America started to recover in 2002-2003, achieving its best record in 2013.

Table 3 – *Poverty ratio and unemployment* (*selected years*)

	Poverty ratio	**Extreme poverty**	**Unemployment**
1980	40.5%	18.6%	–
1986	43.3%	20.7%	–
1990	48.4%	22.6%	7.5%
1994	45.8%	20.9%	8.4%
1999	43.8%	18.6%	11.2%
2005	39.7%	15.4%	9.0%
2009	32.9%	13.0%	8.1%
2013	28.1%	11.7%	6.2%
2014	28.2%	11.8%	7.1%

Source: based on data from the ECLAC, available at http://estadisticas.cepal.org/cepalstat/ (for poverty), and the World Bank database, available at https://data.worldbank.org/ (for unemployment).

Table 4 presents some external sector indicators for the region. The current account balance presents a negative result in all periods. In the first two, it reached –1.9% and –2.2% of GDP, respectively. The 2000s were slightly better (–1.6%). Hence, even in a period with a very strong improvement in the terms of trade (figure 2), the region could not keep a surplus in the current account, which implied in turn that it kept being dependent on external capital flows.

The difference is clear, however, when one differentiates the two sub-periods of the 2000s. The averages are 0.8% and –1.8% respectively. Therefore, whereas during the first sub-period the indicator was positive, it became negative during the second sub-period and close to the levels observed in previous decades.

We use two different indicators for the external debt, as a percentage of both GDP and exports. The external debt declined significantly according to both measures. The average values for the three periods were approximately 43%, 36% and 30%, respectively, for the external debt as a percentage of GDP, and 323%, 235% and 135%, when measured as a percentage of exports. In this regard, there was a slight increase from the first sub-period to the second. The external debt as a percentage of exports dropped from 137.6% to 134.4%, whereas the external debt as a percentage of GDP fell from 32.4% to 28.1%. However, the lowest point of the series was 2008 in both cases. After that year, the series start to show a negative trend.

[18] In contrast to the World Bank and other official indicators that are defined in terms of US dollar values in terms of purchasing power parity, the ECLAC's index considers each country's 'food basket' and respects the prevailing consumption patterns (United Nations, 2010).

Table 4 – *External indicators* (*average for the period*)

	Current account (% of GDP)	External debt (% of GDP)	External debt (% of exports)
1980-1989	−1.7%	44.1%	285.6%
1990-2002	−2.5%	36.4%	239.3%
2003-2014	−0.7%	30.0%	134.5%
2003-2007	0.9%	33.1%	139%
2008-2014	−1.9%	27.9%	131.2%

Source: based on data from the IMF *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx

In sum, the region experienced a positive decade in the selected indicators. In terms of GDP growth, the decade was significantly better than the previous ones and inflation was brought back under control.

Unemployment levels and the poverty ratio were the indicators that exhibited the best results. There was a downward trajectory in unemployment rates, which continued even after the North Atlantic financial crisis and was reversed only after 2014. In turn, the poverty rate decreased by over half during the 2000s. It had remained quite stable during the Neoliberal Era after having increased during the Lost Decade, according to ECLAC in the latter case.

Looking at the two sub-periods, GDP growth performance declined significantly during the second sub-period, but inflation remained stable. Unemployment and poverty continued to decrease, but the pace of improvement slowed down significantly, indicating the effects of the growth slowdown experienced after the North Atlantic financial crisis.

The current account balance result for the most recent decade was negative, but considerably better than in the other periods, and the external debt decreased. Breaking down the 2000s into two sub-periods, the current account balance displayed a positive result during the first sub-period, but a negative one during the second. Moreover, although the external indebtedness averages were, on average, better in the second sub-period, they started to increase right after the crisis and remained on an upward trajectory during the entire second sub-period.

3. Performance of developing regions during the 2000s

The previous section brought forth two main conclusions: Latin America's performance during 2003-2014 was generally better than during the previous two decades. However, when the 2003-2014 period is divided into two sub-periods, it is clear that there is a noticeable worsening of economic conditions in the aftermath of the North Atlantic financial crisis, indicating that the 'golden years' had passed.

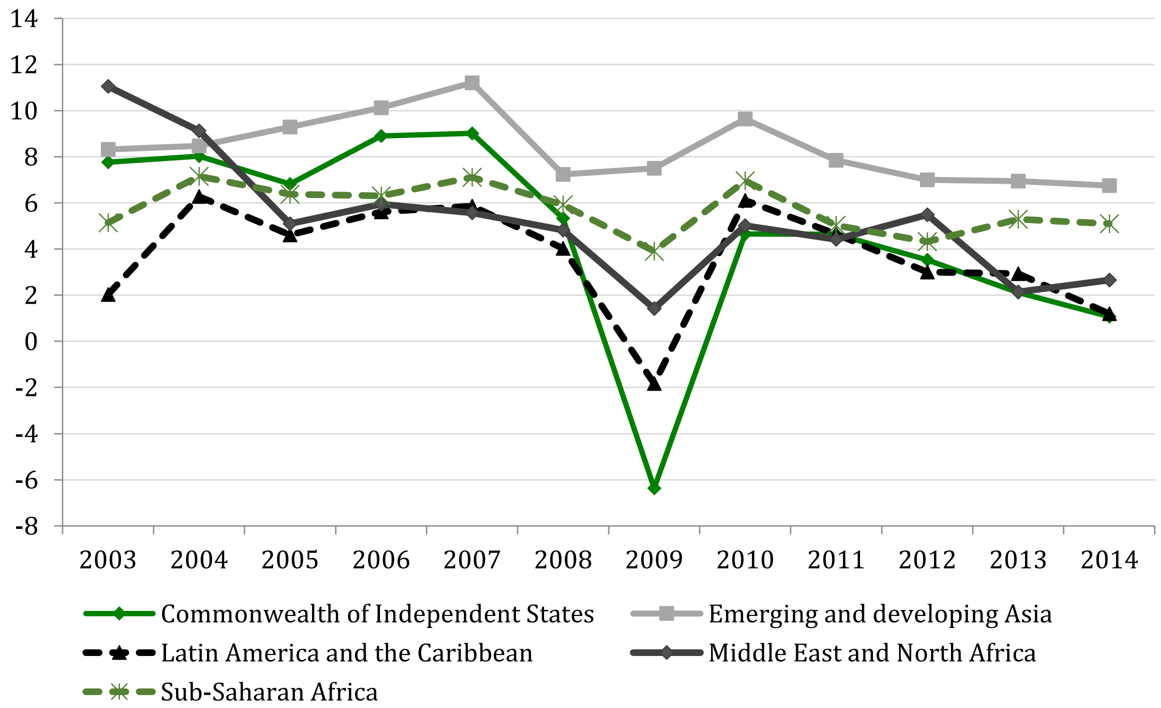
Nevertheless, answering the questions posed in the introduction to this paper also requires comparing Latin America's macroeconomic performance with that of other emerging/developing regions. Consequently, this section compares the performance of LAC with four other developing regions using the same indicators analyzed in the previous section. The objective is to analyze whether the past decade was good for LAC relative to other regions or if the positive indicators exhibited by the region were only part of a phenomenon that took place in all emerging/developing regions.

In this regard, Velasco (2013) has pointed out how the well-known development economist Carlos Diaz-Alejandro remarked in the 1970s that the combination of high commodity prices, low international interest rates, and abundant international liquidity would amount to economic nirvana for developing countries. This was exactly the juncture experienced by emerging markets during the period 2003-2014. As indicated in the first section of this paper, commodity prices showed a significant improvement during the decade. In turn, the falling risk premia on external debt and then the very low interest rates in developed countries after the North Atlantic financial crisis allowed the emerging economies to pay these lower interest rates on external debts. Hence, all the elements in the dreamed 'nirvana' described by Diaz-Alejandro were present, so that the external environment was favorable not only to LAC, but also to other emerging/developing regions.

Turning back to the indicators, we found some limitations in the international databases for some of the regions, especially the data on unemployment and poverty ratios, which were incomplete for some countries. In order to make them comparable among the regions, we weighted the numbers by population to construct regional averages with the available data.

As figure 4 shows, in terms of economic growth the decade was superb for emerging countries. In decreasing order, the GDP average growth for the decade was positive in all regions: EDA (8.3%), SSA (5.7%), MENA (5.2%), CIS (4.6%) and LAC (3.7%). However, as this data indicates, LAC's performance was far from remarkable. The region presented less than half of the average GDP growth of the EDA and, more generally, slower growth than all other emerging/developing regions.

Figure 4 – *GDP growth, 2003-2014*



Source: based on data from the IMF *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx

Regarding inflation, table 5 shows that LAC presented the second best result: 5.3%, right behind EDA's 4.6%. The remaining regions showed results above 7.0%, with CIS being the highest. This shows, as previously indicated, that in terms of price stability, the region achieved excellent results.

Table 5 also shows data for unemployment: both the average during the period and the percentage change in the period. Unfortunately, there was insufficient data to construct an index for sub-Saharan Africa. LAC was the region that most successfully reduced unemployment rates, from 10.5% in 2003 to almost half of that level in 2014 (6.1%). However, all regions experienced a decrease in this indicator. EDA experienced the lowest decrease, but this reflects the fact that the initial rate was already very low, and the region succeeded in keeping the lowest unemployment rate among all developing regions during the whole period. CIS presented a considerable decrease, from 8.9% to 6.1%, while MENA also diminished its rates by about two percentage points, from 13.0% to 11.0%.

Regarding the poverty ratio, we used the same indicator as in the previous section: the percentage of population living on less than \$1.90 per day. Unfortunately, there was insufficient data for many countries. As data shows, EDA is the most striking case regarding poverty reduction. This success must be directly linked to the incredible pace of growth of that region during this period. The CIS maintained the lowest poverty ratio among all regions. Meanwhile, for LAC and EDA it diminished by almost 40% and for MENA by 33%. The outlier was SSA, with only a small reduction. As indicated above, the lack of data for some countries may bias these estimates.

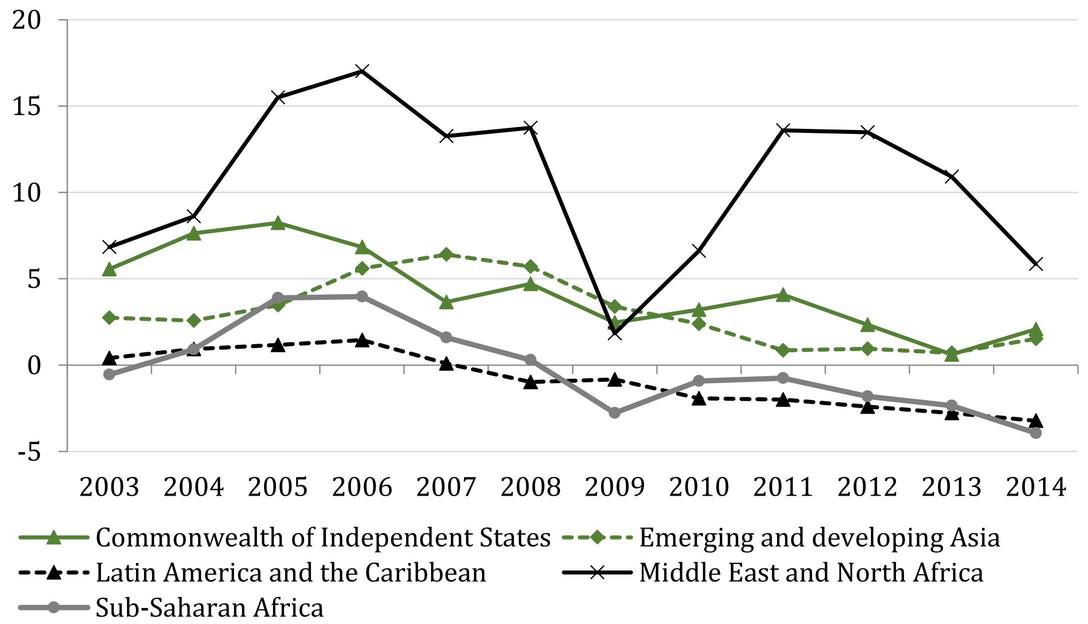
Table 5 – *Inflation, unemployment and poverty ratio for developing regions, 2003-2014*

	Inflation (average)	**Unemployment** (average during the period and % change in the period)	**Poverty ratio** (2002 and 2013)
CIS	9.8%	7.3% (–33%)	6.2%/2.2%
EDA	4.6%	4.9% (–16%)	30%/3.7%
LAC	5.3%	7.8% (–41%)	13.1%/4.9%
MENA	7.9%	11.3% (–15%)	18.1%/10.6%
SSA	8.7%	Insufficient data	56.1%/41%

Note: for the poverty ratio we use data for 2002 instead of 2003 because there was insufficient data for 2003.
Source: based on data from the IMF *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx, and the World Bank database, available at https://data.worldbank.org/

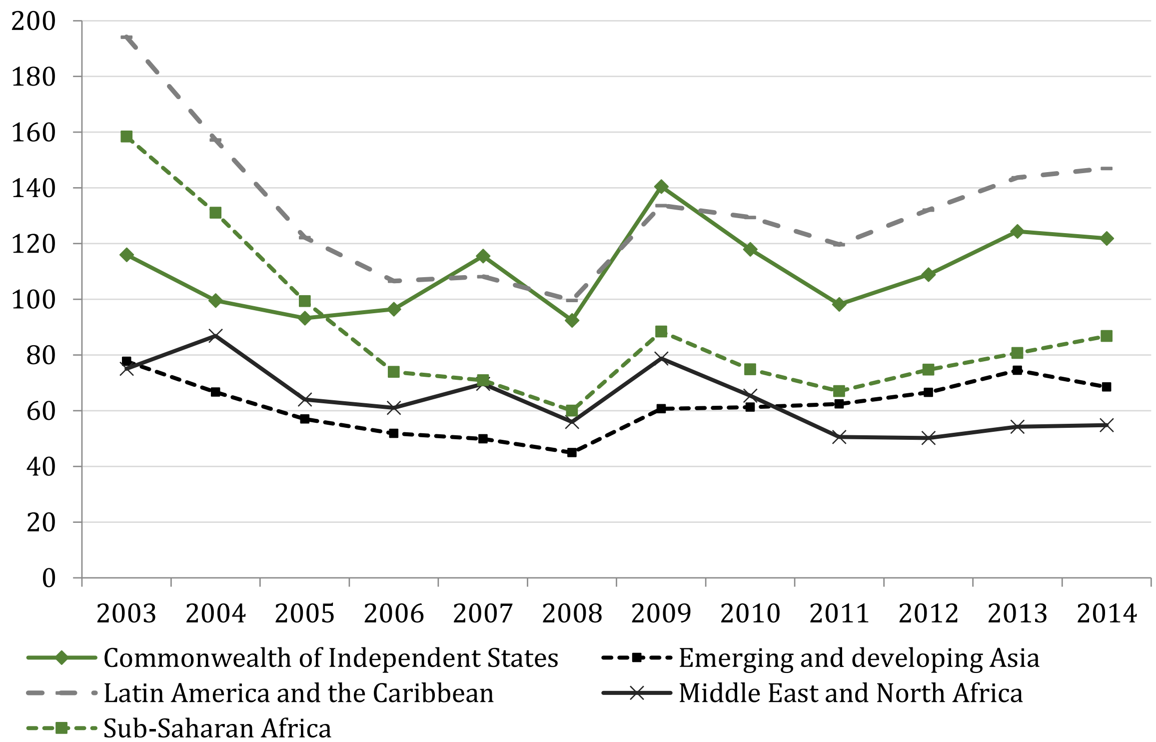
Looking at the external sector, figure 5 shows that the boom in the commodity prices experienced over the decade was very favorable for the developing regions that are rich in natural resources. MENA and CIS, areas with high reserves of oil and gas, attained strongly positive current account balances: 10.6% and 4.3% of GDP, respectively. EDA kept a substantial positive result (3%), even though lacking abundant natural resources like other emerging/developing country peers. In contrast, SSA and LAC were not capable of achieving positive outcomes despite the terms of trade boom. The former presented an average current account balance of –0.2% of GDP while LAC showed the worst performance (–0.7%) of GDP.

Figure 5 – *Current account balance (% of GDP)*



Source: based on data from the IMF *World Economic Outlook* database, available at http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx

Figure 6 – *External debt (% of exports), 2003-2014*

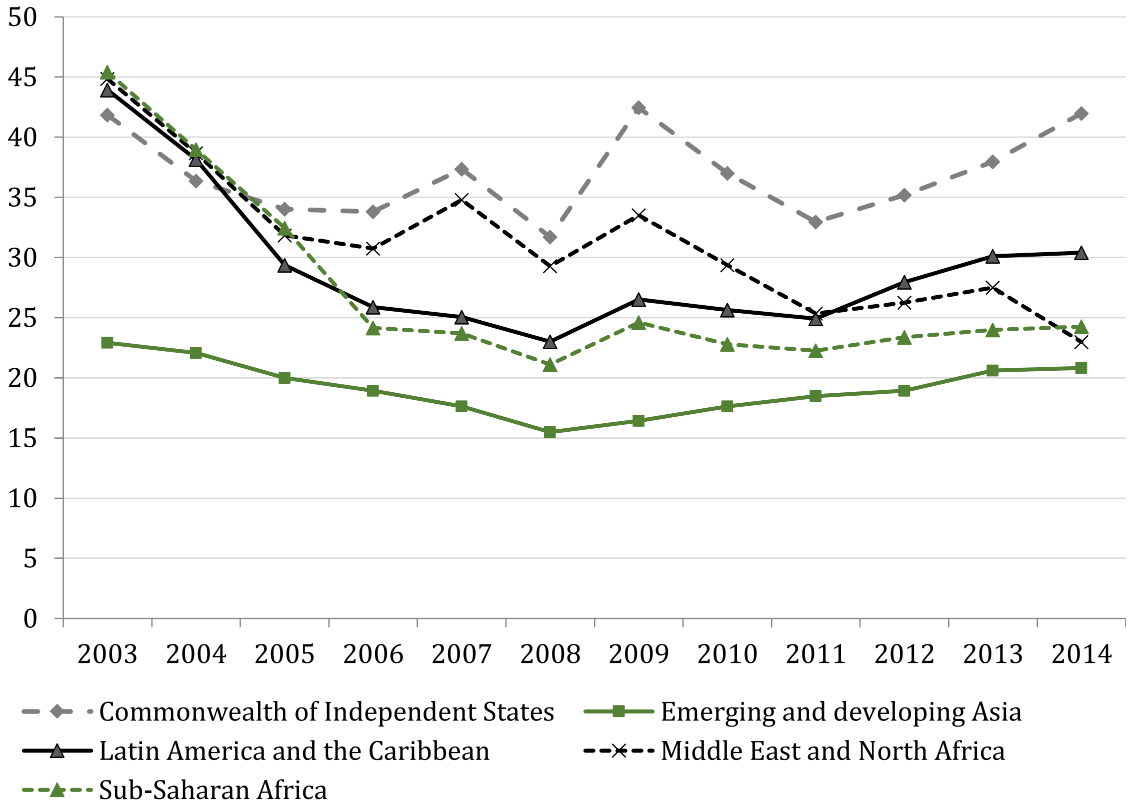


Source: based on data from the World Bank database, available at https://data.worldbank.org/

Regarding the external debt, figure 6 shows that while LAC, SSA and MENA successfully reduced the external debt as a share of exports, CIS and EDA experienced a slight increase. LAC remained, however, as the region with the highest debt ratio of the sample in 2014 (147.1%) and an upward trajectory of this variable after 2011.

When measured as a percentage of GDP, the evolution of external debt presents somewhat different results. Here, all the regions were successful in diminishing the debt ratio. The pace, however, was not the same. MENA and SSA were the most successful regions, with a decline near 50%. LAC and EDA diminished their ratios by 20% and 10%, respectively, while the remaining region, CIS, presented a 0.3% decrease.

Figure 7 – *External debt (% of GDP), 2003-2014*



Source: based on data from the World Bank database, available at https://data.worldbank.org/

Finally, following the tradition from the Latin American structuralist school, we look at some parameters that are paramount to assessing the success or failure of a developing country in terms of creating medium-to-long term development prospects.[19] According to this school, economic development is not a question of simply going through 'stages' within a uniform pattern previously experienced by developed countries. It is a development process

[19] For the founders of that school of thought see, for example, Prebisch (1951), Furtado (1961), and for the more recent literature, Ocampo et al. (2009) and Cimoli et al. (2015).

that carries not only the increasing per capita income, but also transformations in the production structure toward sectors with higher technology contents (Ocampo, 2005).

In that sense, macroeconomic performance depends on the economic structure and vice-versa. Cimoli et al. (2010) propose a link between these two dimensions. On the one hand, they suggest – following the Keynesian theory of the balance of payments constrained growth stemming from the pioneering work by Thirlwall (1979) – that differences in economic growth rates are due to differences in the ratio between the income elasticity of the demand for imports and the income elasticity of the demand for exports. On the other hand, they suggest, following the structuralist and evolutionary traditions, that this ratio depends on the pattern of productive specialization of each country, meaning that countries that specialize in more technology-intense sectors and whose international demand tends to grow at higher rates tend to have a higher income elasticity of the demand for exports in relation to the income elasticity of the demand for imports, and thus higher economic growth rates (Cimoli et al., 2010, pp. 389-390 and 392-393).

Regarding Latin America's productive structure, Palma (2010, p. 43) observes a loss of industrial capacity and complains that:

> It's hard to believe today that during the 60s and 70s LA was the undisputed manufacturing powerhouse of the South, responsible for nearly three of every four dollars of manufacturing value-added generated there. Although its share began to fall in the 1970s due to some inevitable catching-up from late-starters, this process accelerated after 1980 in such a way that by 2008 LA's share represented just one-fourth of the total.

In this context, some analysts suggest that the region is experiencing problems increasing its productivity[20] and reducing its productivity gap *vis-à-vis* developed countries. The latter is possibly a result of the high heterogeneity of production structures that characterize the region. Even for firms belonging to the same sectors, the difference is large (Grazzi et al., 2016). The importance of innovation to sustained economic growth is also a stylized fact. For instance, Crespi et al. (2014) point out that the labor productivity of innovative firms in Latin America is 50% higher than that of non-innovative companies.

Hence, in order to see how the region's economic structure evolved, we will use two indicators directly associated with developed nations and more innovative economies: the number of approved patents, and the research and development expenditure as a percentage of GDP.[21]

Regarding the number of approved patents, the performance of the region during the recent period is very disappointing. As table 6 indicates, during 2000-2015, LAC presents a modest 36% increase in the indicator, losing participation in the world total (from 3% to 2%). It is noteworthy that even the developing countries in Africa were able to present better results. In the case of China, a country that is being successful in structural change, growth in patenting was impressive. While they presented practically the same result as LAC in 2000 (13,000 patents), this dramatically increases during the following years to almost 360,000 patents per year.

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[20] For instance, Moreno-Brid and Garry (2016) showed that even during its recent boom, the region has been unable to reduce its income and labor productivity gaps *vis-à-vis* the United States of America.

[21] According to Schumpeter ([1911] 1934) innovation can be understood as: (i) the introduction of new goods and services or of new qualities of those; (ii) the development of new production methods or new marketing strategies; (iii) the introduction of new markets; (iv) the discovery of new sources of raw materials or the exploitation of previously known resources; and (v) the establishment of new industrial structures in a given sector.

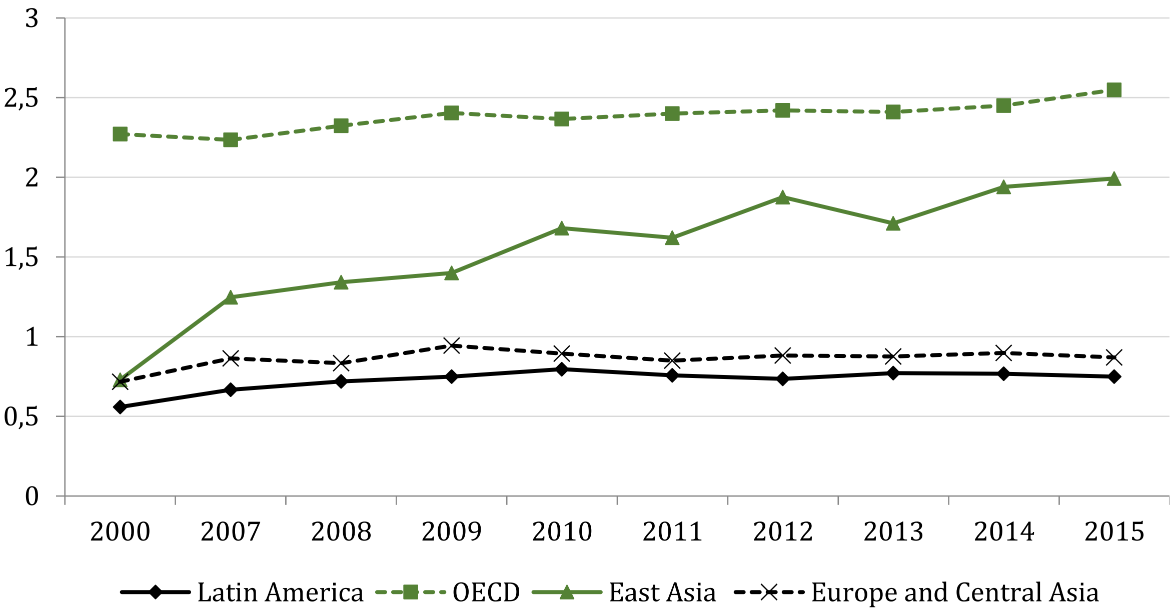
Table 6 – *Number of approved patents*

	2000	2015	2000-2015 % growth
Africa	5800	8500	46%
China	13058	359316	2650%
LAC	13600	18500	36%
World	517600	1241000	139%

Source: based on data from the World Intellectual Property Organization (WIPO), Intellectual Property Statistics database, available at http://www.wipo.int/ipstats/en/

Finally, one of the most critical indicators of the capacity to innovate and generate new capabilities in a given economy is R&D expenditure. In that regard, the region showed again some improvement, but lagged behind other developing regions. As figure 8 shows, compared to emerging countries in East Asia, Europe and Central Asia, the performance of LAC is disappointing. East Asia successfully advanced during these years (particularly due to China's performance), catching up with the OECD countries, whereas for Latin America it remained below 1.0% of GDP, reaching a maximum of 0.8% in 2010.[22]

Figure 8 – *R&D expenditure* (*% of GDP*)



Source: based on data from the World Bank database, available at https://data.worldbank.org/

[22] Moreno-Brid and Garry (2016) used some different indicators when analyzing Latin America's performance in the 2000s and they did not focus on comparisons with other developing regions. However, they came to somewhat similar conclusions regarding Latin America's recent record. For instance, they argued that "[...] the commodity boom and the improvement of the terms of trade temporarily alleviated this [balance-of-payments] pressure [...] but the region, in general, failed to channel these windfall gains to investment in order to transform its productive structure" (Moreno-Brid and Garry, 2016, p. 15).

In sum, in terms of economic growth, Latin America did not excel when compared to other emerging/developing regions over the last decade. In fact, it had the worst result. On average, it experienced less than half the growth rate of Emerging and Developing Asia and remained more than one percentage point below the region with the second worst record, the Commonwealth of Independent States.[23]

Regarding inflation, the result for LAC was good, being the second best among the five regions. However, the indicator was relatively low in all regions despite a small peak during the 2008 food crisis that led to double-digit inflation figures in some of them. On the other hand, LAC showed remarkable indicators in terms of reducing unemployment rates, presenting the highest reduction of this critical variable among the four regions analyzed.

The poverty rate decreased in all the regions from 2005 to 2011. Unfortunately, there is a lack of observations for many countries. Nevertheless, our analysis showed that CIS levels remained very low and at decreasing rates, while LAC and EDA reduced their poverty rates by two-fifths. It is interesting to note that LAC was highly successful in reducing the poverty ratio despite the fact that it experienced the worst GDP growth rate of all regions.

As for the external sector, LAC presented again the worst performance among all regions. Only two regions showed a negative average during a decade that was marked by a boom in commodities prices: SSA and LAC, with LAC exhibiting the worst results. LAC was successful in reducing its external debt ratios, both as a proportion of GDP and exports, but it remained as the region with the highest external debt as a share of exports, and with the second highest external debt ratio as a proportion of GDP. Therefore, LAC had overall a poor external sector performance compared to other developing regions during the period analyzed.

Finally, the results were also disappointing regarding the number of patents and R&D (as a share of GDP). Hence, Latin America had a poor performance when it comes to innovation and transformation of its productive structure.

4. Concluding remarks

Latin America received much attention in the recent past thanks to its supposedly good economic performance. Some authors claimed that the 2003-2014 period (the 2000s, as we have called it in this paper) —or at least part of it— was a golden one for Latin American countries. Others suggested that the 2010s were going to be 'Latin America's decade'. The paper aimed to discuss if these visions were overoptimistic or if the region did indeed experience an outstanding period.

The first section explored the concept of a 'Latin American Decade'. It showed that the region experienced a very significant increase in terms of trade over the last decade, generated by a commodity price boom. Moreover, the capital flows to Latin America presented a sharp boost. This led some authors to state that the region was about to experience – or was already going through – an outstanding decade. However, this was not a consensus, and other authors disagreed with this vision and argued that the golden years might end, as in the past, with a crisis.

[23] Palma (2010) puts forward an explanation for the anemic economic growth experienced by Latin America in recent decades. The author argues that the region's decline in GDP growth after 1980 was entirely matched by a poor productivity performance, leaving employment growth practically unaffected. This loss in productivity growth can be attributed to a lack of investment and the ineffective neoliberal policies applied in the region.

The following section analyzed LAC indicators over the 2000s and compared them with the region's past record. It concluded that the more recent years were good for Latin America when compared to the two previous periods: the Lost Decade and the Neoliberal Era. However, a closer look at the recent decade brought some interesting conclusions. Dividing the period into two sub-periods and observing the economic performance before and after the 2008 North Atlantic financial crisis, the results for the latter were disappointing. GDP growth was lower, external results were much worse, and the pace of improvements in poverty and unemployment slowed down, indicating that the boom years were already past.

Finally, the paper compared LAC's performance over the last decade with other emerging/developing regions. Instead of over-performing other regions, as expected if we stick to the 'golden years' vision, the region under-performed in almost all indicators, particularly experiencing the worst performance in terms of both GDP growth and external sector variables. The results regarding structural change were also poor. However, LAC did very well in terms of unemployment, being the region that achieved the highest reduction in this aspect, and presented a slightly above-average result regarding poverty reduction. It was also one of the best performers in terms of inflation.

Hence, the analysis of the data showed that it is true that the region experienced a good decade when compared to the two previous ones. However, its best performance was achieved during the five years that preceded the 2008 North Atlantic financial crisis, after which its performance worsened and the rate of improvement of several indicators slowed down significantly. Moreover, when compared to other developing regions, Latin America's performance was poorer across most indicators.

Finally, as Moreno-Brid and Garry (2016) observe, the region did not create or consolidate the capacities to sustain its long-term growth, once the positive trend in its terms of trade lost steam, making the booming period very short and directly associated with the commodity boom. In other words, the period 2003-2014 was a 'Latin American decade' only when compared with the region's own past. Furthermore, these 'golden years' lasted for less than a decade, since they were concentrated mainly in the 2003-2007 sub-period. The less favorable external context for the upcoming years, which was already evident in 2014, also undermines the hypothesis that the 2011-2020 period could be the 'Latin American decade'. Therefore, we conclude that there is neither an indication of a 'Latin American decade' in the recent past nor during the current decade.[24]

Appendix: composition of groups

Commonwealth of Independent States

Composed of 12 countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

[24] The paper did not intend to discuss why the region underperformed other emerging markets, especially regarding GDP growth and the external sector. Future works can explore this subject. In addition, it is important to note that we work with aggregate data. For this reason, some countries will be more representative of the sample than others. In LAC, this is clearly the case for Brazil and Mexico. According to data from 2016, these countries together are responsible for 51% of the population and 56% of the GDP of the region. Future works can also explore this point and analyze the results within the region.

Emerging and developing Asia

Composed of 29 countries: Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao P.D.R., Malaysia, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nepal, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, and Vietnam.

Latin America and the Caribbean

Composed of 32 countries: Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Middle East and North Africa

Composed of 20 countries: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

Sub-Saharan Africa

Composed of 45 countries: Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

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