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New G30 Report Examines the Economic Underperformance of Latin American Countries, and Identifies Potential Solutions as the Region Exits the COVID-19 Pandemic

WASHINGTON—September 6, 2023: **The Group of Thirty (G30)** today published *Why Does Latin America Underperform?* A product of the G30 Working Group on Latin America, the report analyzes the complex and intertwined structural, financial, and political drivers that result in the countries of Latin America consistently delivering poorer economic outcomes when measured against other similar countries outside the region.

While many countries in Latin America share similar challenges, there are unique circumstances preventing a one-size-fits-all explanation to the question of underperformance. The report identifies four distinct low-growth syndromes to characterize Latin American countries:

- (1) Endemic macroeconomic instability as seen in Argentina, Ecuador, and Venezuela.
- (2) Macroeconomic stability but declining growth, as seen in Colombia, Chile, Peru, and Uruguay.
- (3) Open economy, many reforms, new exports, low growth: the unique case of Mexico.
- (4) Mediocre macroeconomics, micro-meddling, captured state: the unique case of Brazil.

Arminio Fraga, Co-Chair of the G30 Working Group on Latin America, Founding Partner of Gávea Investimentos, and Former Governor of the Central Bank of Brazil, stated: “This report aims to illuminate and analyze the factors that contribute to persistent poor economic outcomes in the Latin American region. While recent global pandemic and economic pressures are a factor, many of the causes have been longstanding.” He continued: “Using a cohort of similar-sized peer countries for comparison, the lag of Latin America is evident. Trend growth among the peer cohort has been double that of Latin American states. Peers also have higher investment levels and faster productivity growth. We need to better understand why this is happening if policymakers hope to craft viable solutions and ensure improved outcomes – economically, socially, and politically.”

Guillermo Ortiz, Co-Chair of the G30 Working Group on Latin America, Senior Advisor and Board Member at BTG Pactual, Former Governor of the Bank of Mexico, and Former Minister of Finance of Mexico, noted: “We found in particular that productivity growth rates are very low, with a gradual decline in the rate since the mid-1990’s. Separately, we also looked at the performance of goods and services exports. In these areas, Latin American countries underperform their peers. For exports, the Latin American economies come in at approximately 25 percent (GDP weighted average), compared to over 40 percent among the peer group.” He added: “Productivity growth decline can be explained generally by two types of misallocations – first, within and among firms, and second, across sectors.”

Andrés Velasco, Project Director of the G30 Working Group on Latin America, Dean of the School of Public Policy at the London School of Economics and Political Science, and Former Minister of Finance of Chile, stated: “Latin American countries also have challenges due to their problematic political economies. Their democracies do rank better than those in Africa, the Middle East, and Asia, but we see a consistent backsliding

of democracy and the quality of government institutions in Latin America. We have identified a low-trust, low-institutional capacity trap. Trust among citizens has fallen, as has trust in institutions. This lack of trust undermines state capacity and can feed populism. Today we need political as well as economic reforms.”

Arminio Fraga and Guillermo Ortiz co-chaired the G30 Working Group on Latin America, which included nine Group Members: **Daron Acemoglu, Mauricio Cárdenas, Agustín Carstens, Domingo Cavallo, William R. Rhodes, Carmen Reinhart, Lawrence H. Summers, Alejandro Werner, and Ernesto Zedillo.** We extend our appreciation to the Working Group members for their support, input, and dedication throughout the project.

The G30 thanks Project Director Andrés Velasco for his extensive contribution to the report, and the research team at the London School of Economics who supported him.

To receive a copy of *Why Does Latin America Underperform?*, contact G30 Press Officer **Melissa Golding** at +1 571-236-2820 or pressoffice@group30.org.

On September 6, 2023, at 11:30am EDT, the G30 hosted a live webinar discussion of the report with Arminio Fraga, Guillermo Ortiz, Andres Velasco, and Lawrence H. Summers. A link to the event recording is available on the G30 website, www.group30.org.

The Group of Thirty is an independent global body comprised of economic and financial leaders from the public and private sectors and academia. It aims to deepen understanding of global economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to policymakers and market practitioners. The Group was established in 1978. The Chairman of the Board of Trustees is **Tharman Shanmugaratnam**; **Mark Carney** is Chair of the Group. More information and membership bios are available at www.group30.org.
