

*Latin America and the Caribbean-US in a new
global economic scenario: changes in the
transmission of economic shocks*

Author: Laneydi Martínez Alfonso, *Ph.D.*
Center for Hemispheric and US Studies (CEHSEU)
University of Havana, Cuba.

Observatory on Latin America (OLA)
The New School University
New York, 2016

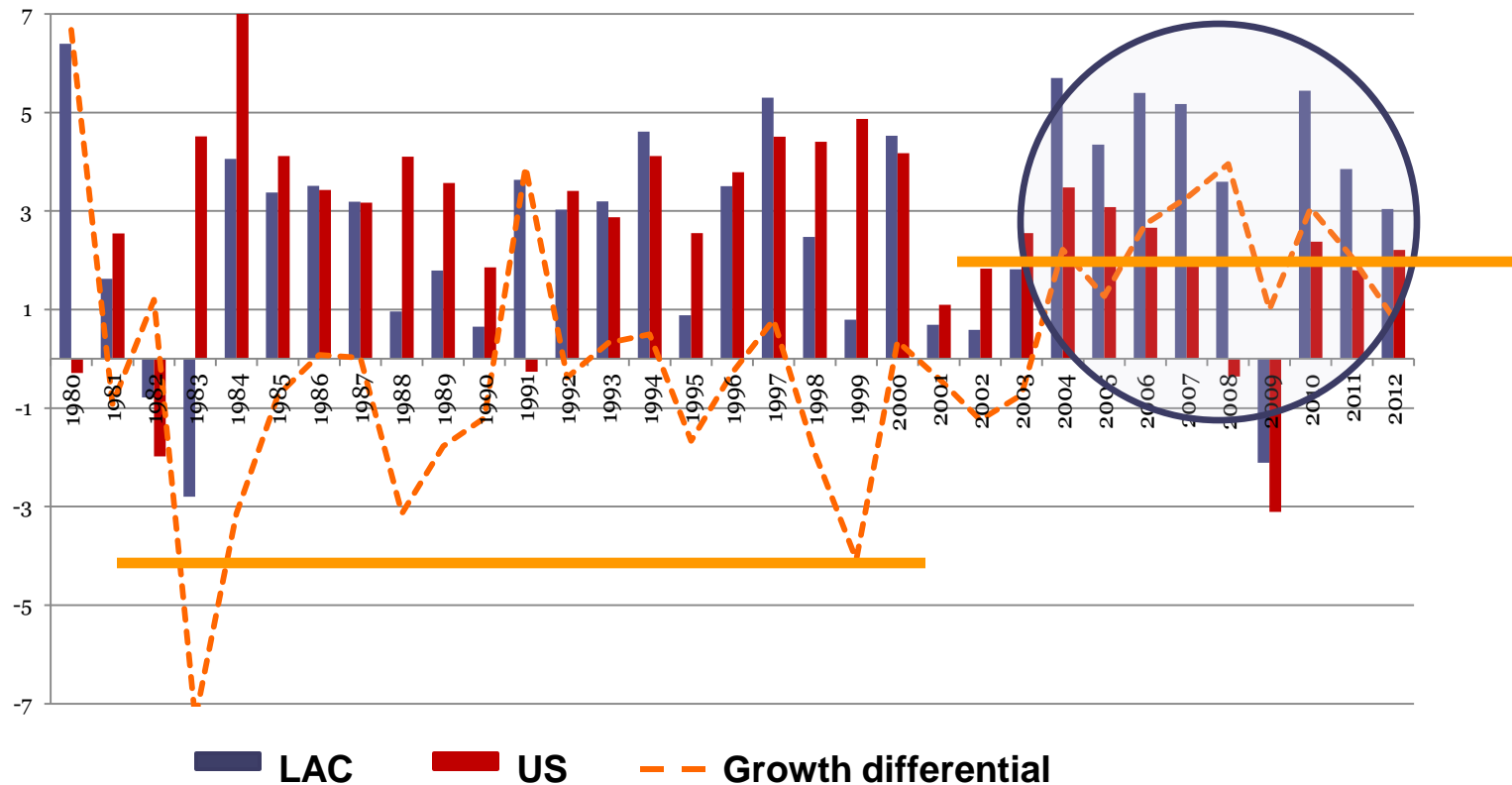
Outline

- I. Economic cycle, hegemony and dependence: *"cycle-system", "cyclical center", "diffusion relations"* and the new global scenario.

- II. New theoretical developments on economic cycle synchronization: *the debate on decoupling and the new features of the international economy.*

- III. Characterization of the economic relationship between the US and Latin America and the Caribbean: transmission of economic shocks.

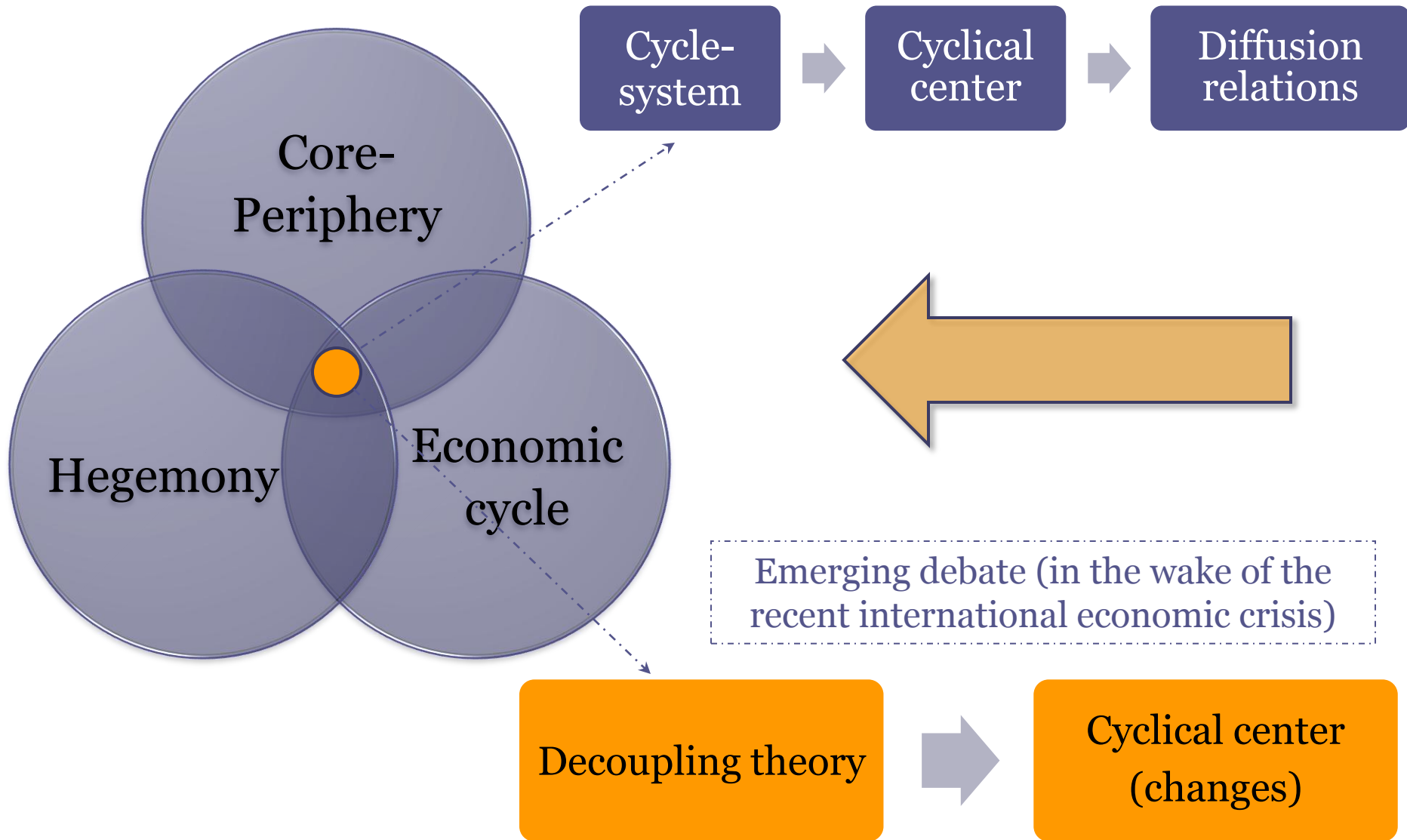
GDP growth in US and Latin American and the Caribbean, 1980-2014 (%)



Source: Elaborated by the author based on World Bank data.

- New economic international context --- changes in the transmission of shocks
- Questioning the traditional impact of US economic dynamic over LAC

I. Economic cycle, hegemony and dependence: "cycle-system", "cyclical center", "diffusion relations" and the new global scenario.



Authors	Economic cycle	Transmission channels	Area
Kose <i>et al</i> (2008)	X	X	Industrial and emerging
Deés & Vansteenkiste (2007)	X	X	US and EU
Akin & Kose (2007)	X	X	Industrial and emerging
Thorsrud (2013)	X	X	Industriales y emergentes (global)
-Taylor & Barbosa-Filho & Rada	X	-	Developed countries
Montoya & Jacob de Haan, (2007)	X	-	Euro Zone
Tomljanovich & Ying (2005)	-	X	G-7
LAC			
Canova (2005)	X	X	US-LAC
Titelman & Pérez & Minzer (2008)	X	X	LAC
Pérez-Caldentey <i>et al</i> (2013)	X	X	LAC
Baudel, Díaz y Quenan (2011).	X	X	US/China and Brazil/Mexico
Da Silva Bichara (2011)	X	X	Brazil and China
Izquierdo y Talvi (2011)	-	X	LAC and US
Moreira et al (2006)	X	X	LAC and G-7
Cuevas et al (2002)	X	X	US, Canada and Mexico
Mejía-Reyes (2004)	X	X	US, Canada, Mexico, Colombia, Peru, Brazil and Chile
Martínez (2014) y Martínez & Cobarrubias (2009)	X	X	US-LAC

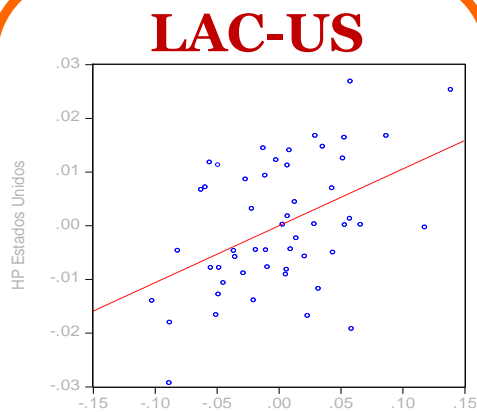
New global economic context in the XXI century

- 1) **Re-location of economic growth dynamism** from the *traditional cyclical center* (United States and Europe) towards areas and/or stakeholders led by a group of countries labeled as: “emerging”, “developing”, “periphery”, “semi- periphery” or “Global South”.
 - Framework: more heterogeneous and diverse periphery, increase of South-South interactions, pro-active economic policies, etc.
 - Transition: unilateral dependence to multiple dependency.
- 2) **Emergence of the recent global economic crisis** and its implications (reduced contribution to global growth by developed countries).
- 3) Higher relative levels of “resilience” during the crisis (debt reduction policies, foreign reserve accumulation, capital control) --- **decoupling theory** (implications in the medium and long term).

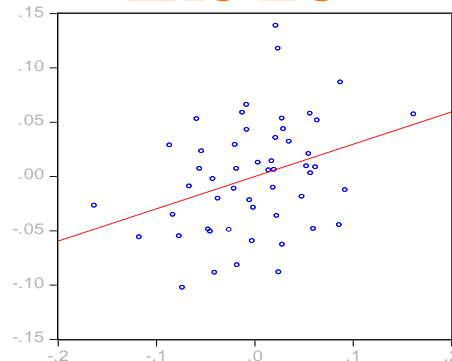
Characterization of the economic relationship between the US and Latin America and the Caribbean: transmission of economic shocks.

Economic cycles correlations between LAC and US/China and UE

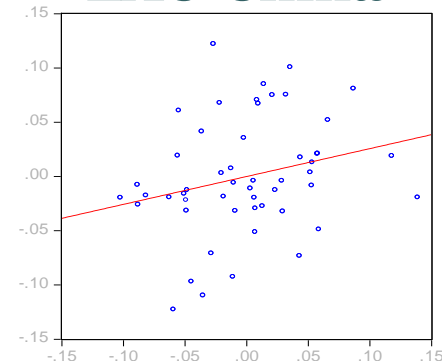
**Hodrick-
Prescott**
(0.456)



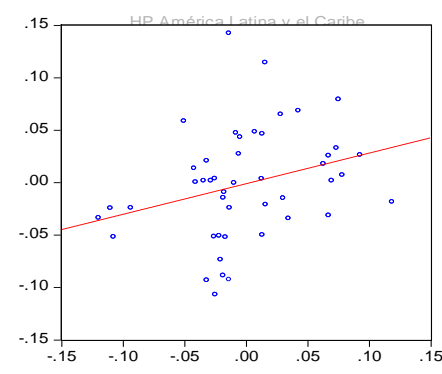
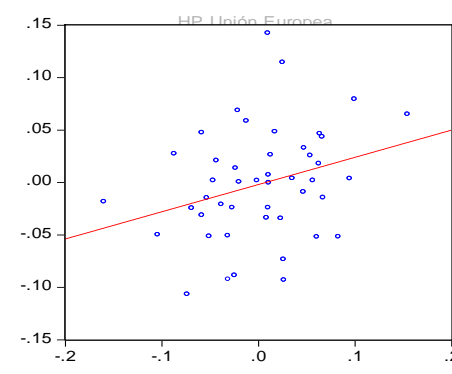
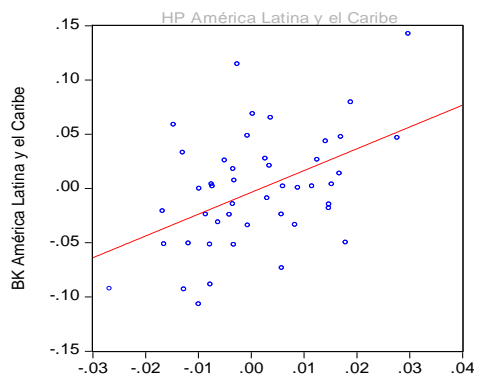
LAC-EU



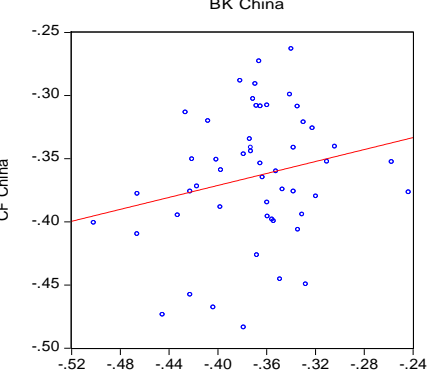
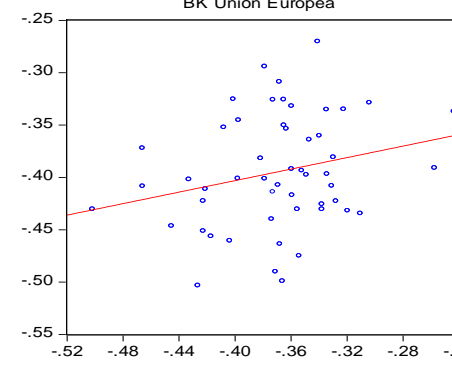
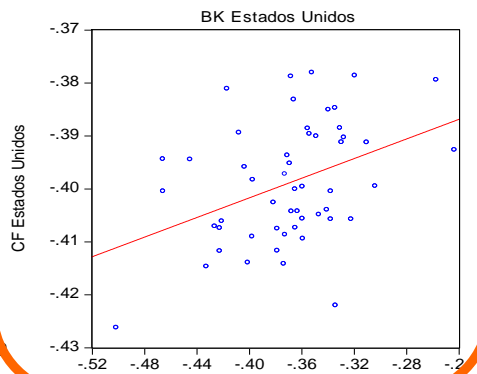
LAC-China



**Baxter &
King**
(0.469)



**Christiano-
Fitzgerald**
(0.393)



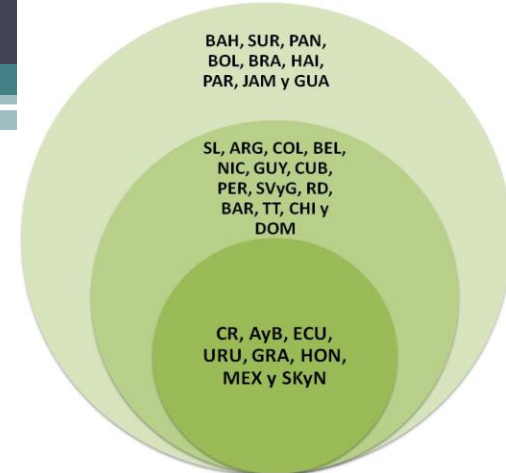
Source: Elaborated by the author with World Bank data (2013).

Transmission of economic shocks from US to LAC (1970-2013/2014)

Main results:

- Small gap between filters --- **correlation is positive and significant** --- **centrality of US.**
- **US during growth periods** --- **factor of relative economic stability for LAC** --- stronger influence during the medium cycles (8-15 years) **EE.UU.**
- **Dynamic correlation in 5 and 10 years windows** --- diminishing in the last years (HP and CF).
- **China** --- **growth and economic influence in the last 10 years.**
- **Volatility of LAC's economic cycle/ decoupling/ *two speeds* hypothesis.**

Sub-regional and country to country patterns: circles of intensity of LAC-US interrelations



Identified synchronicities

	Countries	Total by subregions
1st Circle*** (criteria: until 0.5)	Costa Rica, Mexico, Antigua and Barbuda, Saint Kitts and Nevis, Granada, Venezuela, Ecuador, Honduras, El Salvador and Uruguay.	10 (4 Central America, 3 Caribbean and 3 sSuth america)
2nd Circle (criteria: between 0.49 and 0.25)	Santa Lucia, Argentina, Colombia, Belize, Nicaragua, Guyana, Cuba, Peru, Saint Vicent and the Grenadines, Dominican Republic, Bahamas, Barbados, Trinidad Tobago, Chile and Dominica.	15 (5 South america, 2 Central american and 9 Caribbean).
3rd Circle (criteria: less than 0.2)	Bolivia, Brazil, Paraguay, Surinam, Haiti, Jamaica, Panama, and Guatemala.	8 (South america, 2 cCntral America and 3 Caribbean).

Source: Elaborated by the author with World Bank data.

Characterization of the economic relationship between the US and Latin America and the Caribbean: transmission of economic shocks.

Table 1. Latin America and the Caribbean: participation of United States, European Union and China in the total trade of the region, 2000-2020 (%).

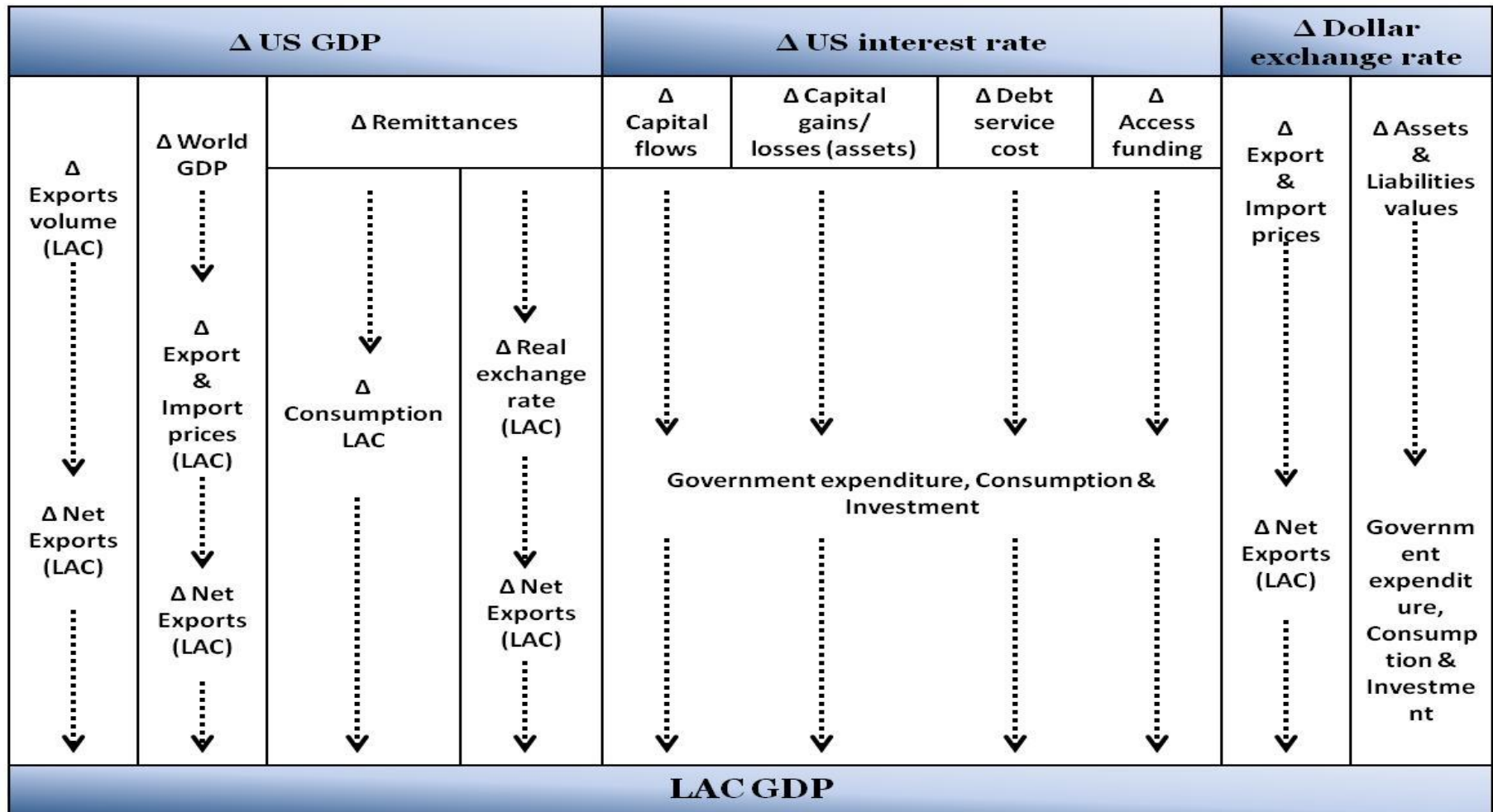
	2000	2009	2020
Imports			
United States	51%	33.1%↓	26.1%↓
European Union	14%	14.7%↑	14%↓
China	1%	9.5%↑	16.2%↑
Exports			
United States	60%	38.6%↓	28.4%↓
European Union	12%	13.8%	13.6%↓
China	0%	7.6%↑	19.3%↑

Source: ECLAC (2011) data.

- FDI
- Debt
- Foreign reserves.
- Remittances
- Internationalization of companies.
- US monetary policy
- Heterogeneity in patterns.

Systematization: transmission of economic shocks

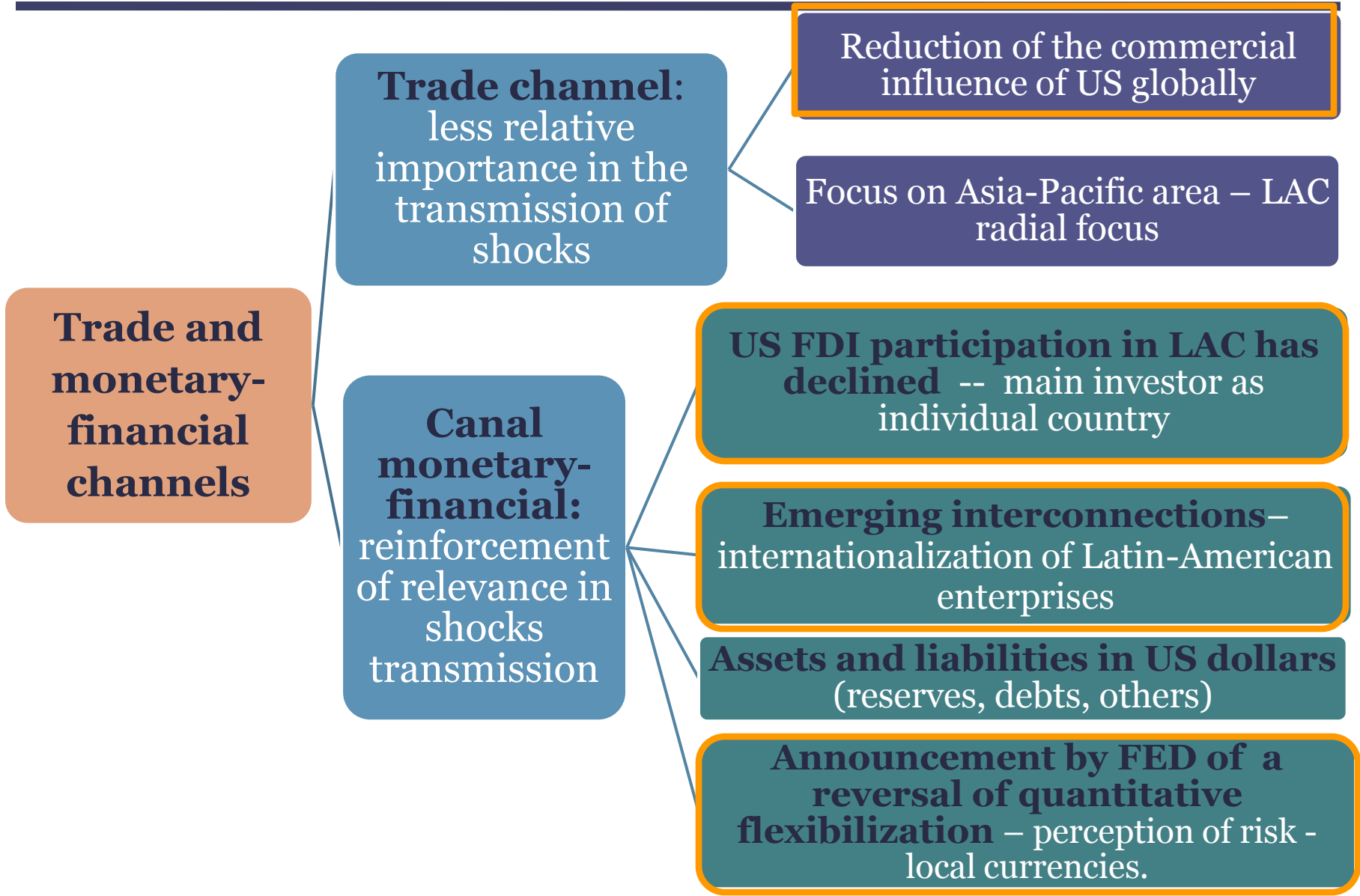
Main channels of shocks transmission from US to LAC (macro-variables)



Source: Martínez and Cobarrubias (2009).

Notes: Δ = variation, X_n = Net exports and TRC = Real exchange rate.

Changes in patterns and channels of transmission of economic shocks



Trade and monetary-financial channels

Trade channel:
less relative importance in the transmission of shocks

Reduction of the commercial influence of US globally

Focus on Asia-Pacific area – LAC radial focus

Canal monetary-financial:
reinforcement of relevance in shocks transmission

US FDI participation in LAC has declined -- main investor as individual country

Emerging interconnections – internationalization of Latin-American enterprises

Assets and liabilities in US dollars (reserves, debts, others)

Announcement by FED of a reversal of quantitative flexibilization – perception of risk - local currencies.

Final remarks I

- I. The recent international economic crisis catalyzed **transformation processes in the economic shocks transmission from US economic cycle to LAC**, catalyzed by the international economic crisis and resulting in more attenuated and diverse mechanisms.

- II. **United States as a main global player, maintains its dual dimensionality** in its economic relevance for Latin America and the Caribbean: main hemispheric stakeholder and important trading partner and its **role in international monetary and financial architecture**. The preservation of its economic hegemony in the region is mainly based on the last pillar on which the region has little influence.

Final remarks II

III. The transformations in the transmission of economic shocks from US economic cycle to Latin America and the Caribbean shifted, in at least four areas:

- a) Transmission of shocks from the US to the region tempered compared to last (reduced incidence-influence).
- b) Changes in the balance of economic influences on the cycle of Latin America and the Caribbean, traditional and emerging partners.
- c) Dual trend: decline in the relative importance of the trade channel and strengthening of monetary and financial channel in the transmission of shocks from the US to Latin America and the Caribbean.
- d) Greater heterogeneity / difference in the transmission of shocks to the region (macroeconomic policies and regional initiatives).

Final remarks III

IV. Episodes/windows economic asynchrony were evident during the recent global economic crisis in Latin America and the Caribbean, certain degrees of resistance unprecedented financial --- **Real decoupling and financial coupling** (Levy and Williams, 2012). LAC region increasingly heterogeneous --- --- more complexities to the two speeds thesis.

V. **Patterns of dependency** of the region to US are maintained through international monetary and financial architecture, area comprising much of the media continue to perpetuate the traditional trends.