REGIONAL PERSPECTIVES

LATIN AMERICA AND THE IMF

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A strong multilateral system is crucial for advancing the region's economic prosperity

At the Bretton Woods Conference, 19 out of 44 delegations came from Latin America and the Caribbean. By the time the IMF started operations in 1947, an overwhelming majority of Latin American countries—representing more than 40 percent of the Fund's initial membership—had signed its Articles of Agreement. This underscores both Latin America's commitment to a post–World War II system geared toward growth and stability as well as the region's essential role in making it happen.

Eighty years on, progress in some areas of the world economy has been far greater than the IMF's founding members could have dreamed. In others, however, progress has been disappointing. This is true for Latin America, too. On one hand, Latin Americans overall value the benefits associated with the rules-based international system. Vibrant civil societies and innovative entrepreneurial spirit thrive in many corners of the region. Inflation and fiscal profligacy—for decades the scourge of the region—have been dramatically tamed in all but a handful of cases.

On the other hand, there is still great inequality of income and opportunity. This creates significant security, crime, and social challenges. The encroachment of Cold War tensions between the US and the Soviet Union on domestic politics left scars that are still painful, hampering national consensus on how to achieve inclusive growth. Inflation must be defeated completely and permanently across the region.

Since the 1980s, IMF-supported programs, with strong domestic ownership, have proved effective in many countries, from Chile and Mexico to Brazil and Jamaica. This is evidence that successful programs are key to preventing the repeated use of Fund resources and the associated stigma. The lessons from past successes and failures should inform present and future programs so as to avoid the at times tumultuous relationship between the IMF and some countries in the region.

Multilateralism's importance

Latin America's future will continue to depend on multilateralism and the achievement of the IMF's core mandates, as set out in Article I. The Fund must double down on these objectives—not lose sight of them. This is the only way for Latin America to achieve sustained growth and economic stability. Of

A woman harvests lemons in Pica, Chile.

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course, the world economy is very different from that of 1944. This poses quite different risks and opportunities for the next 80 years. The IMF must continue to adapt to provide for the needs of Latin America.

At the turn of this century, the combination of rising economies in Asia and an international monetary system based on the US dollar benefited Latin American economies that had established credible monetary and fiscal frameworks along with clear rules for sound domestic macroeconomic management. This allowed them to achieve growth and stability as they opened up further to both trade and finance. Disappointing growth in the past decade has not put a dent in the achievements of price and financial stability; several Latin American central banks are well along the path of easing monetary policy after having withstood major global shocks.

Future global risks, however, loom large. Geoeconomic fragmentation threatens to unravel the hard-earned gains stemming from an integrated world. Whereas major economic zones and countries—with their large internal markets and diversified production structures—have some resilience in the face of potential global fragmentation, Latin American economies are much more at risk, with their relatively small size and heavy specialization in natural resources. Their comparative advantage still lies in the abundance of natural resources, and while regional integration could in theory provide a measure of diversification, the internal and regional infrastructure gaps remain major obstacles.

New cold war

A major geopolitical break that disrupts trade and finance between the main economic zones in the world would be catastrophic for the overwhelming majority of Latin American economies. Even if the worst did not happen, global political tensions from a second cold war could again spill over and wreak disruption on Latin American domestic politics and societies.

This need not be the case, however. Unlike in 1947, at the dawn of the Cold War, the extent of

A worker in a textile factory in southern Peru.

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economic integration today is such that the costs of reverting to autarky are evident to all major global stakeholders and their societies. The raison d'être of the international financial architecture is precisely to prevent the dislocations that made autarky and aggressive war feasible political goals in the 1920s and 1930s. As long as the IMF's governance continues to adapt to the new global circumstances, it will remain the prime forum for international economic cooperation.

Speaking truth to power, particularly regarding the risks for small and medium economies from disruptive deglobalization, must remain a guiding principle for the IMF if it is to mitigate risk and the effects of fragmentation on Latin America.

The other major global risk is the dramatic implications of climate change. The direct impact of disruptions from a hotter planet are an obvious net negative for the world. Yet in Latin America the reality is more complex and varied. In countries that depend heavily on the exploitation of fossil fuels for fiscal revenues, the transition to clean energy will be exceedingly painful. It will be much easier for countries with natural resources such as lithium and copper and comparative advantages in the renewable energy needed for the transition; they can expect positive tailwinds for years to come. But the scenario is not clear-cut. Sound institutions are crucial so that opportunities are not squandered and to manage climate finance properly—and to deal with other thorny problems, such as water scarcity, climate migration, and energy security. The IMF will be called on to support national efforts in the region through technical assistance and financing with other partner institutions.

Avoiding economic fragmentation and facing the risks of climate change require well-functioning multilateral institutions such as the IMF. The success of this global order since 1945 is evident. It shows that the sum is indeed more than the parts when it comes to international cooperation. But each part needs to play a constructive role.

On one hand, the US—as the main architect of the post–World War II era—has an outsize responsibility for a well-functioning international financial architecture and for peaceful prosperity in the Western Hemisphere. A US withdrawal from internationalism would knock out an essential cog in the machinery of globalization, and taking Latin America for granted could make the aches and pains of the past more evident, fueling anti-US sentiment in the region.

On the other hand, the enormous economic achievements of China have made it a major economic player in international trade and global affairs, including in Latin America. A constructive approach by both the US and China toward peaceful multilateralism in the next decades is a necessary ingredient as the IMF continues to support the future of Latin America. F&D

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