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Research Summaries

Latin America's External Linkages

Shaun Roache



Recent global financial market volatility and evidence of a slow-down of growth in the United States have rekindled interest in an old question: how are changes in external conditions likely to affect growth in Latin America? The diversity of the region implies that many external factors could have a strong influence, among them external demand, interest rates in advanced countries, investor risk appetite, remittance flows, and commodity prices. This article reviews recent IMF research on how external factors, both macroeconomic and financial, affect economic growth in Latin America.

From the broader literature, a number of stylized facts can be established about the nature of Latin America's external linkages and how they have changed over time. Linkages seemed to be at their strongest during the 1970s, even though the region was relatively closed to external trade. This was due to a variety of common shocks, including the sharp rises in world oil prices that buffeted the global economy throughout that decade. *(continued on page 2)*

Reaping the Benefits of Structural Reforms

Stephen Tokarick



IMF research has shown that structural reforms—the liberalization of product and factor markets—have many benefits. They raise growth rates and productivity, although it may take some time before these benefits are realized. Research has revealed that there may be complementarities among certain types of reforms that reinforce the impact of one on the other. Overall, structural reforms are an important component of a policy package that countries can implement to raise per-capita real GDP.

How can countries accelerate their rate of economic growth? Policymakers the world over frequently grapple with this question. And while there is no magic formula, it is fair to say that a consensus has emerged that any economic program designed to spur growth must include structural reforms—policies that liberalize financial, product, and factor markets (e.g., labor markets) and reduce barriers to international trade. Structural reforms typically are an important component of IMF-supported adjustment programs, but just how effective are they? A large body of research undertaken at the IMF *(continued on page 4)*