

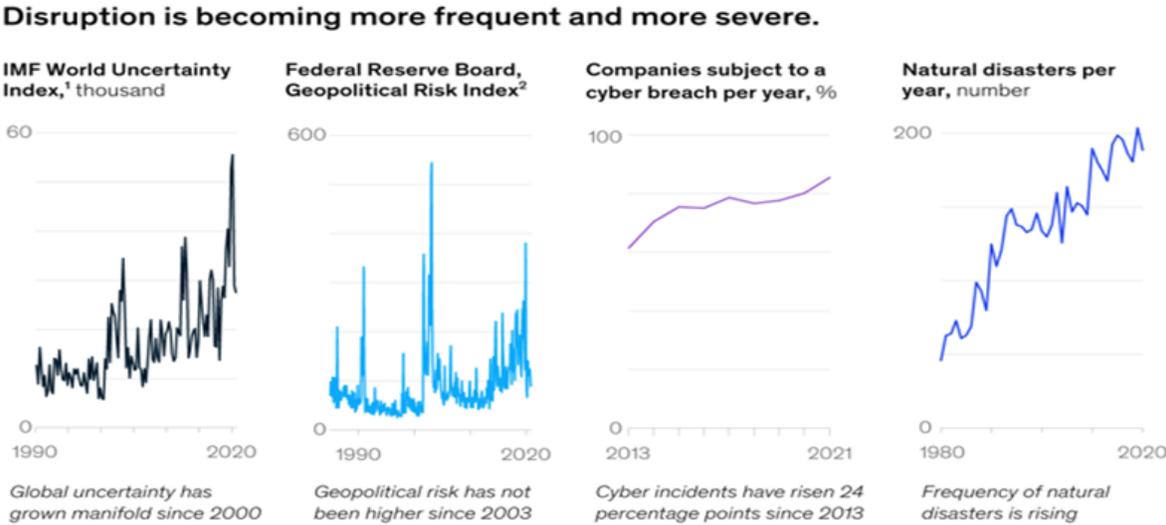
# Op-ed Transitions, Shocks and Resiliency: Introduction.<sup>1</sup>

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Latin America and the Caribbean receive external shocks on a recurring basis: of demand, of prices of their export products, interest rates, international liquidity, climate, natural disasters, in 2020/2021 health, in 2022 from the Russian war -Ukraine and in the coming months of the rises in international interest rates and the drop in the pace of activity in Europe, the United States and China.

The region is also inserted in different transitions that represent different challenges: the transition between long cycles of the world economy and short cycles at the global level, or the transition towards sustainable development, for example.

The following graphs illustrate the growing uncertainty of these phenomena to which the region is repeatedly exposed.



<sup>1</sup>Based on the percentage of the word "uncertain" (or its variant) in the Economist Intelligence Unit country reports.  
<sup>2</sup>Automated text-search results from the electronic archives of 11 newspapers: Boston Globe, Chicago Tribune, Daily Telegraph, Financial Times, Globe and Mail, Guardian, Los Angeles Times, New York Times, Times, Wall Street Journal, and Washington Post. Index was calculated by counting the number of articles related to geopolitical risk in each newspaper for each month (as a share of the total number of news articles).  
Source: CyberEdge; Swiss Re



<sup>1</sup> The opinions expressed are the sole responsibility of the author and do not commit the OAS.  
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By impacting households, companies and States, these shocks and transitions, these disruptions as the graph calls them, become to a greater or lesser extent a phenomenon with its own internal dynamics at the country level. They become endogenous phenomena; for example, the lack of liquidity at the international level later becomes a lack of internal liquidity, with its own logic and dynamics, although always related to what happens abroad.

Remittances may be the most obvious example to explain this fact, since it directly affects the income of households in the countries of Latin America and the Caribbean due to the impact of the drop in activity in the countries of origin of said remittances.

In the two examples it can be seen that it not only depends on these variables directly, but also on the “wave” effects that it may receive from the impact on other agents in its network that are sensitive to the disruptions and policies that are implemented in other regions. or countries.

There are other “wave” effects that are more difficult to trace, for example, the cuts in what is usually erroneously called the “supply chain” and which are actually supply networks, the greater the degree of intermediation<sup>3</sup> centrality of the network nodes that are affected, the greater the amplitude of the impact.

Another of the clearest examples is the financial system, its role in ensuring the payment and credit chain of all productive sectors is important enough for most governments, in the face of each financial crisis, to have implemented almost immediately financial policies to guarantee the chain of payments.

The degree of exposure of each agent is different, the sensitivity of each agent is different, and the vulnerabilities and capacities of each agent to face impacts are also different.

All these elements come together in the concept of resilience.

Resilience is understood as the capacity of an entity (country, region, sector, agent) to respond and recover from external shocks in general<sup>4</sup>, in particular in a given performance variable (or set of variables).

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<sup>3</sup> These concepts refer in a simplified way to the quantity of direct or indirect relationships that have an agent in the network of relationships. For a more formal definition see [Networks, Crowds, and Markets: A Book by David Foray and Jon Kleinberg \(cornell.edu\)](#) sección 3.6

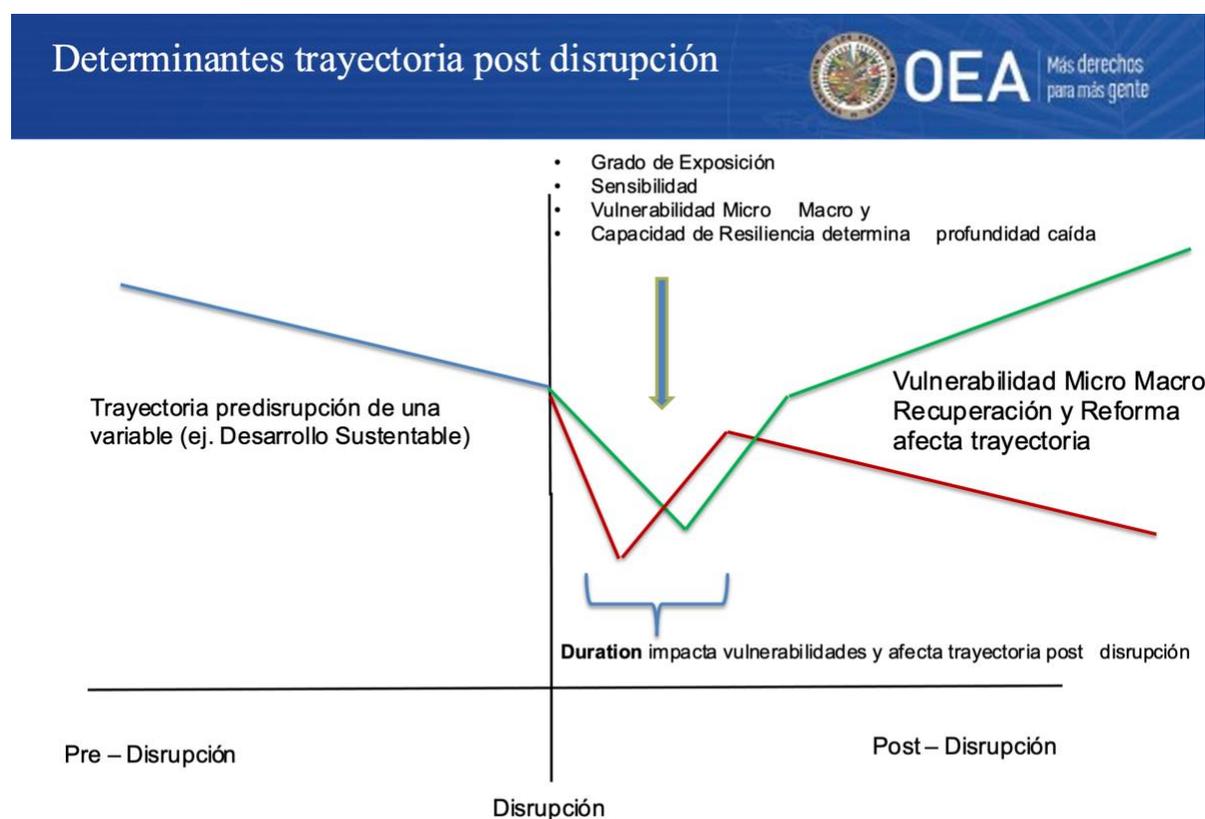
<sup>4</sup> <http://pubdocs.worldbank.org/en/197851569963638980/Determinants-of-Macroeconomic-Resilience-in-the-Euro-Area-An-Empirical-Assessment-of-Policy-Levers.pdf>

In economics, the concept of macroeconomic resilience has been used to refer to the ability of a country to resume the trajectory of potential growth.

The point is that Latin America and the Caribbean presented in the period prior to COVID-19 and Russia's invasion of Ukraine a growth trajectory that presented several challenges in terms of productivity, equity and poverty.

Therefore, it is important to distinguish between resilience for convergence towards the previous trajectory (lack of dynamism, problems of productivity, equity and poverty), from resilience for the creation of a new trajectory of sustainable development that allows facing these challenges.

The attached chart illustrates these points.



The rupture of trajectories and/or the emergence of new trajectories will depend on:

- the degree of exposure to disruption
- the sensitivity

- the vulnerabilities
- the capacities for resilience
- that affect the duration of the impact and in turn affects the trajectory

Considering all disruptions as temporary and acting through temporary measures is a serious mistake. In this way, measures overlap in the face of each disruption that are increasingly frequent. Each disruption also impacts the vulnerabilities that impact the effects that the next disruption will have.

The logical way to act should be to have a strategy to reduce vulnerabilities and develop capacities and institutions that foster resilience.

For the countries of Latin America, there is also a challenge that is not recent: productive diversification. Because it is already recognized in all the literature that the lack of productive diversification is one of the greatest vulnerabilities of the region in the face of each disruption.

In short, in 2022 and the years to come, the region faces a new version of the need for resilient structural reforms and structural change for sustainable development.