



## INTERNATIONAL ECONOMIC FORUM LATIN AMERICA & THE CARIBBEAN 2009



Co-organised by the French Ministry of Economy, Industry and Employment, the OECD Development Centre and the Inter-American Development Bank, in partnership with UBIFRANCE

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## Summary

In the first meeting of its kind in Europe since the outbreak of the economic crisis, political and business leaders assessed the economic prospects for Latin America and the Caribbean.

This high-level event gathered a selective group of representatives from the public and private sectors to discuss key economic issues for Latin America and the Caribbean, such as the regional macroeconomic outlook, the role of fiscal policy in fostering development, the building of transatlantic business partnerships, and the emergence of Latin American multinationals.

As **Carlos M. Jarque**, IDB Representative in Europe noted, the two objectives of the event were first to provide an insight on the macroeconomic situation of the LAC region and debate on the most appropriate policies to respond to the crisis and second to identify and exchange bi-regional business initiatives and investment projects which effectively contribute to strengthen partnership so crucial at the present moment.

Workshops of the meeting focused on main infrastructure projects in the region, Water and Sanitation Initiative, Sustainable Energy and Climate Change Initiatives (SECCI), Fair Trade and Sustainable Tourism, MIF and IIC investments' promoting development of small and medium enterprises as well as the opportunities for the majority projects.

### Introduction

The Forum opened with presentations from OECD Deputy Secretary-General **Thelma Askey** and IDB President **Luis Alberto Moreno**. Deputy Secretary-General Askey emphasised the importance of emerging economies to the OECD, while President Moreno underscored the rising challenges of the current economic crisis for policy makers, outlining a number of IDB proposals including a USD 6 billion special crisis fund and a sustainable energy and climate change fund.

### Session I: How can fiscal policy reinforce economic development in Latin America?

As an introduction, OECD Development Centre Director **Javier Santiso** highlighted the different channels through which the crisis has affected Latin America and the Caribbean. He underlined however, that despite the crisis, the region's capacity to borrow in international capital markets had so far not been affected, suggesting an important break from the past. He also emphasised the role that adequate fiscal management can play to combat the current crisis and reduce poverty and inequality, drawing on the main conclusions in the OECD *Latin American Economic Outlook 2009*.



**Andrés Velasco**, Chilean Minister of Finance, described his country's countercyclical policy approach, stressing the importance of institutional quality, credibility and debt levels to successful policy making. Chile's economy experiences significant fluctuations in its revenues due to price volatility for its copper exports. In order to mitigate these revenue swings, the government successfully implemented a structural balance requirement, passed into law in 2006 as the *Fiscal Responsibility Law*. In response to the crisis, the government announced a USD 4 billion (2.8% of GDP) fiscal stimulus package in January 2009, boosting public investment programmes and transfers.

**Juan Alberto Fuentes Knight**, Finance Minister of Guatemala, emphasised the challenges specific to smaller countries as they pursue effective countercyclical macroeconomic policies. Key to ensuring a credible fiscal pact is improved governance on the one hand, but also donors' commitment to support those states engaging in reform.

The Undersecretary of Budgeting and Expenditures for Mexico's Secretariat of Finance and Public Credit, **Dionisio Pérez-Jácome**, underlined the 13% increase of Mexico's revenues after implementation of the fiscal reform, the objective of which was improved quality in expenditures. Improvements in housing credit and the future uses of the oil revenue fund for 2010 were also mentioned.

Questions from the floor centred on the criteria for determining appropriate forms of public expenditure during a crisis. **Minister Velasco** of Chile stressed that in his country's case, these criteria include both the needs of different sectors and the speed with which investments can impact the economy. **Mr. Pérez-Jácome**, Undersecretary of Budgeting and Expenditures of Mexico, also stressed that priority projects should be those more readily executed, and that his country has specifically targeted cash transfer programmes. **Minister Fuentes Knight** highlighted the importance of employment and social protection programmes.

**Marta Lagos** of Latinobarómetro enquired about the importance of "fiscal morale" - people's willingness to pay their taxes. **Mr. Fuentes Knight** stressed that to reduce tax evasion and increase contributions, it was important to establish transparent frameworks to enhance public institutions' credibility. **Mr. Santiso** highlighted the role that think tanks may play, as independent arbiters of the quality of policy making, in increasing fiscal transparency.

**Mike Reid**, Americas Editor at "The Economist", was moderating the panel.

## **Session II: Overview of Latin American economies in 2009**

The IDB's **Eduardo Fernández-Arias** commented on the current vulnerabilities and risks for Latin America in the short run. Implications for current account shocks and remittances were discussed; he concluded that an optimal policy mix in response to the crisis should seek to associate fiscal stimulus and international co-operation.

**Christian Noyer**, Governor of the Bank of France, took a historical perspective: he underlined that Latin America's management of the wealth derived from the recent of the commodity-price boom was greatly improved relative to past episodes, with credible countercyclical policies being undertaken in a number of countries where they were absent in past. The management of foreign exchange reserves was also said to have improved, a factor which had contributed greatly to the much reduced vulnerability of the region relative to past economic downturns.

**Martín Redrado**, Governor of the Central Bank of Argentina, mentioned several positive elements in recent Latin American economic policies: first, the importance of inter-temporal fiscal solvency; second, prudent monetary policies; third, the strength of financial systems, with dramatically reduced incidence of



currency mismatch between assets and liabilities; and fourth, the role of trade diversification to consolidate the external position of Argentina and other countries in the region. To increase the fiscal space for policy makers, two public goods should be prioritised: monetary and financial stability.

**José de Gregorio**, Governor of the Central Bank of Chile, presented a positive view for the Chilean economy, forecasting 2-3% growth of GDP for 2009. The importance of copper in the country's exports was acknowledged, but it was argued that trade diversification has made important inroads. Chile's exports basket, furthermore, faces stable demand even in periods of crisis.

**José Darío Uribe Escobar**, Governor of the Central Bank of Colombia, acknowledged the effect of global demand contraction on the domestic economy, and forecasted GDP growth between 1-3% for 2009. The Colombian government has focused on the financial channel to respond the effects of the crisis, limiting loans in foreign-currency and reducing short-term borrowing. Regarding monetary and fiscal policy, the Governor stressed that public investment had decreased, with a contraction in expenditure at the department/municipal level. Central government expenditure, focused on mass transport, was increasing, however.

**Braulio Moro**, journalist at "Radio France Internationale", was moderating the panel.

### **Session III: Strengthening inter-regional business partnerships**

**Yves de Ricaud**, from the French Ministry of Economy, Industry and Employment, opened the session by revisiting Latin America and the Caribbean's trade linkages as well as investments flows with the world.

**Enrique García**, President of the Corporación Andina de Fomento, discussed the relationship between Latin America and Europe, said to have been somewhat neglected in recent years. Mr. García stressed the importance for the European Union to understand the heterogeneity of Latin America, pointing out that Mercosur and the Andean Community were very different bodies with independent economic realities and requirements. Complex issues remain to be addressed between the two regions, including agriculture, international migration and investment.

**Arnaldo Abruzzini**, Secretary General, Eurochambres, stressed the danger that protectionism represents for Latin America today, while **Jaime Cáceres**, of the Confederation of Peruvian Private Business Associations, invited governments and the private sector to work together in defining new agreements for trade and investment.

**Steven J. Puig**, Vice-President for the Private Sector and Non-Sovereign Guaranteed Operations at the IDB, provided insights into recent IDB activities in short-term lending, the development of relationships between Asian and Latin American and Caribbean banks and infrastructure projects. Recent collaboration and co-financing projects with the EIB and IFC, such as support for the enlargement of the Panama Canal, were discussed. New initiatives for infrastructure funding were encouraged.

**Andreas Schmid**, Regional Director North/Latin America of the Austrian Federal Economic Chamber, made three practical suggestions for improving business between EU and LAC, first suggesting that the EU-LAC Business Summit should have a permanent contact point through business associations for following-up on decisions, organizing dialogue and symposia, similar to the transatlantic business dialogue already in place, second a standardization and harmonization of priorities such as food safety or others in which barriers to trade are imminent; and finally improving access to credit information and reducing risk by being more transparent.



**Anne Denis**, journalist of the French specialized economic newspaper “Les Echos”, was moderating the panel.

#### **Session IV: The Multilatinas or the internationalisation of Latin American companies**

**Lourdes Casanova**, from INSEAD, presented a report analysing recent performance of a group of Latin American-based multinational corporations – the “multilatinas, or recently called global latinas”. **Akira Kudo**, from Mitsubishi Corporation of Brazil, discussed the increasing role that Japan and other Asian economies are playing in the region.

**Ramón Casilda Béjar**, from BT highlighted the situation of European companies in Latin America and the Caribbean, with special emphasis in BT decision to move headquarters for Latin America from the US to Spain due to cultural reasons and to be concentrated in the telecommunication corporate market through the acquisition of an US company aimed at modernizing, cost cutting and increasing competitiveness of Global Latinas.

**Roberto Zambrano Yturria** Vice President of Strategic Planning and Integrated Functions of CEMEX France pointed out the importance of international investments through their own experience to create Latin leaders in some specialized sectors, such as cement and concrete.

**Patrick Bèle**, journalist of French newspaper “Le Figaro”, was moderating the panel.

#### **Conclusion**

Mr. **Enrique V. Iglesias**, Secretary General, Secretaría General Iberoamericana (SEGIB), and **Anne-Marie Idrac**, France’s State Secretary for Foreign Trade, concluded the Forum with an overview of the discussion, with an emphasis on the world crisis and Latin America and the Caribbean.

The crisis provides a stark reminder of the lessons and challenges on the agenda for policy makers in the Region. The crisis proved to policy makers that markets were far from perfect and emerging markets can, for the first time, be part of the solution. Beyond the immediate challenges of maintaining investment and holding protectionism at bay, the root causes of the crisis call for a rebalancing of the world economic order.

For Latin America and the Caribbean in particular, a number of lessons have emerged: macroeconomic performance has improved significantly, providing needed breathing space for successful countercyclical policies. Yet, a closer look at the micro-dynamics, and not only the macro dimension, is necessary to understand other important issues in the region. Long-term challenges remain: social and economic stability is critical to the region’s prospects in the longer term. Reform of the state, including greater co-operation at the regional level, needs to be reactivated. Finally, winning and keeping the confidence of actors in the economy -- government, households, and firms -- is the fundamental challenge for policy makers in the near future.