Latin American Economic Outlook 2008

Javier Santiso
Acting Director
Chief Development Economist
OECD Development Centre

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The OECD and Latin America: An emerging commitment

• Latin American market democracies matter for the OECD and its member countries

• The Latin American dimension at the OECD:
  ➢ Mexico: Member since 1994; Chile: candidate since May 2007; Brazil: enhanced cooperation, May 2007
  ➢ Economic Surveys:

➢ Latin American Economic Outlook 2008
The Development Centre: A bridge between the OECD and emerging regions

- **Membership of the Development Centre**
  With a Governing Board open to OECD non-member countries, the Development Centre provides a framework for dialogue and experience sharing with emerging regions all over the world.

- **Three Latin American countries are members of the Centre:**
  - Mexico
  - Chile
  - Brazil
Latin American Economic Outlook: The key tools

- **Informal Advisory Board**: Scholars and policy makers from Latin America and OECD countries enrich the analytical work of the project.

- **Research and Publications**: The Development Centre collaborates with OECD experts, international organisations and various Latin American think-tanks.

- **Dialogue Forum**: Key government officials from OECD and Latin American countries share experiences about the design and implementation of public policies.
I  Fiscal Policy and Legitimacy

II  Pensions, Capital Markets and Corporate Governance

III Multinationals, Telecommunications and Development

IV China, India and the Challenge of Specialisation
Economic growth is slower than in other regions and it has left out the poor.

Source: OECD Development Centre, 2007. Based on IMF, *Globalization and Inequality*, 2007. OECD* includes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Netherlands, Norway, Singapore, Spain, Sweden, UK, US.
Improvements in inequality are slight or non-existent.

Changes in inequality during the last decade:
- **Deteriorations**
  - Brazil
  - Honduras
  - Colombia
  - Nicaragua
  - Guatemala
- **Improvements**
  - Bolivia
  - Dominican, R.
  - Panama
  - Chile
  - Mexico
  - Peru
  - El Salvador
  - Uruguay
  - Paraguay
  - Ecuador
  - Argentina
  - Venezuela
  - Costa Rica

Fiscal policy plays a very limited redistributive role, especially taxation. Public spending is a key instrument for tackling inequality.

The effects of taxes and transfers:

- **Transfers**:
  - **LatAm avge**: (22%)
  - **Europe avge**: (14%)

- **Taxes**:
  - **LatAm avge**: (2.8%)
  - **Europe avge**: (1%)

### Inequality before and after taxes and transfers

<table>
<thead>
<tr>
<th>Region</th>
<th>Gini Coefficient Before Taxes</th>
<th>Gini Coefficient After Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>LatAm avge</td>
<td>52</td>
<td>50</td>
</tr>
<tr>
<td>Europe avge</td>
<td>46</td>
<td>31</td>
</tr>
</tbody>
</table>

There is no Latin curse: Quality of fiscal policy is not a matter of DNA

Fiscal policy is more efficient in Europe (even in its Latin countries) in reducing inequalities and stimulating social cohesion

Inequality before and after taxes and transfers

- **Inequality before taxes and transfers**
- **Inequality after taxes and transfers**

<table>
<thead>
<tr>
<th>Country</th>
<th>Before Taxes</th>
<th>After Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>47.46</td>
<td>47.35</td>
</tr>
<tr>
<td>Perú</td>
<td>49.48</td>
<td>48.37</td>
</tr>
<tr>
<td>Argentina</td>
<td>50.48</td>
<td>49.37</td>
</tr>
<tr>
<td>Mexico</td>
<td>51.49</td>
<td>50.37</td>
</tr>
<tr>
<td>Brazil</td>
<td>56.54</td>
<td>55.37</td>
</tr>
<tr>
<td>Colombia</td>
<td>57.52</td>
<td>56.37</td>
</tr>
<tr>
<td>Spain</td>
<td>47.35</td>
<td>47.37</td>
</tr>
<tr>
<td>Italy</td>
<td>48.37</td>
<td>47.38</td>
</tr>
<tr>
<td>Portugal</td>
<td>49.38</td>
<td>48.38</td>
</tr>
</tbody>
</table>

Fiscal policy can help democratic consolidation in Latin America

It is not simply a technical matter

Social cohesion is becoming an increasingly important issue in the region.

Inequality (Gini coefficient 2000s) vs. Fiscal legitimacy (% trust taxes well spent)

Source: OECD Development Centre, 2007. Based on Latinobarómetro (2003, 2005) and ECLAC's Panorama Social
Improving public spending is crucial (efficiency and progressivity)

Improving the efficiency and equity of public spending is a crucial challenge for the region

Transparency can lead towards more consistent policies

In democratic societies debate, dialogue and compromise are key elements for policy

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Pension Reform in Latin American Countries

• Latin America is at the forefront of pension reform.
  – Chile launched the process in 1981 and many countries in Latin America and Eastern and Central Europe have found inspiration in the Chilean experience.

• More efforts are needed in refining the mechanisms in various countries to improve:
  – 1) commercial practices 2) competence and administration of pension funds 3) investment regulations and 4) the contributions paid by members.

• Improving the social dimension of pension reform is also necessary to:
  – 1) extend coverage 2) ensure timely payment of contributions 3) enhance efficiency of management of funds and 4) reduce costs to members.
Pension reform has had a mixed impact on national savings

Source: OECD Development Centre (2007), based on World Bank Development Indicators.
But they have become a force for the development and deepening of financial markets.

Pension Fund Assets as percentage of GDP, 2006

Source: OECD Development Centre (2007), based on Global Pension Statistics database.
Latin American economies are becoming global financial actors

Some countries, like Brazil, have more outward than inward flows of FDI

*Foreign Direct Investment Flows in Latin America*

Latin America is the world’s first destination for FDI in telecommunications.

FDI in telecommunications toward Latin America
Millions of US dollars

FDI in telecommunications, by region

Source: OECD Development Centre, based on PPI Database, World Bank

Source: Information and Communications for Development 2006, World Bank
Investment in telecommunications has accompanied a marked increase in connectivity.

The number of telephone lines has multiplied by 10 in Latin America, to some extent because of foreign investment.

**Foreign Investment in Telecommunications and connectivity**

- Cumulative Foreign Investment in Telecommunications (in USD billion)
- Telephones per 100 inhabitants

Source: OECD Development Centre, based on SEDLAC (2007) and IADB (2007) data.
Mobile telephony has played a key role in increasing coverage

Lines per 100 inhabitants

- Red: Mobile
- Blue: Landline
- Green: Broadband

Source: OECD Development Centre, based on ITU, 2006, World Telecommunications Database
However, the connectivity boom has not benefited all in the same way.

Inequality is high: a quarter of poor households have a telephone at home, 3 times less than high-income households.

**Proportion of the population with a telephone at home**

<table>
<thead>
<tr>
<th>Country</th>
<th>Richest quintile</th>
<th>Poorest quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Brasil</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>México</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Paraguay</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Bolivia</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Perú</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Haití</td>
<td>0.4</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: OECD Development Centre, based on SEDLAC surveys.
Much remains to be done in order to guarantee contestable markets...

Source: OECD Development Centre, based on companies’ data.
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Emerging economies are increasingly present on the global scene

When the OECD was founded, its member countries accounted for 75% of world GDP, today they represent 55% of world GDP

China and India could be angels rather than demons for Latin America’s commercial development

*Value of exports to US from China in same product categories as country’s exports, as % of country’s total exports to US

\[
\text{Arithmetic average of the following indexes: } \text{CC} = \frac{\sum a_{jt} a_{it}}{\left( \sum (a_{jt}) \right) \left( \sum (a_{it}) \right)}, \text{ and } \text{CS} = 1 - \frac{1}{2} \sum \left| a_{jt} - a_{it} \right|
\]

where \( a_{jt} \) and \( a_{it} \) equals the share of item “n” over total exports of countries \( j \) (China) and \( i \) in time \( t \).

Source: C.HJ.Kwan, Nomura Institute of Capital Markets Research

Source: OECD Development Centre, 2006
Based on Working Paper by Blázquez, Rodríguez and Santiso, 2006
The Asian boom has had a strong impact on the trade balance of several Latin American countries.

China’s and India’s rising demand for Latin American commodities (1998-2005)

Increasing commodities prices (1900-2005)

Rise in Indian imports from Latin America (1997-2005)

Rise in mineral exports from Latin America (1998-2005)

Source: OECD Development Centre, based on WITS Database, 2007.
The rise of China and India also represents a wake-up call: The challenges of specialisation

Latin America risks to fall on an excessive raw-material specialisation

Source: OECD Development Centre, 2007. Based on WITS and Comtrade data.
Exploiting comparative advantages: The proximity to export markets

Mexico benefits from its geographic proximity to its major export markets

Shipping time

Mexico is more competitive in manufacturing more sophisticated products which require short delivery times
Infrastructure is a serious drawback for Latin America’s trade development

Latin American Economic Outlook 2009
and more

• Fiscal Policy and development.

• Innovation and development.

• Migration and development.
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