

STEERING GROUP MEETING



MINISTERIAL MEETING

Boosting productivity in Latin America

December 5-6, 2016

Santiago, Chile



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SANTIAGO, December 2016

After a period of robust expansion that has allowed tens of millions of people to get out of poverty, productivity growth in Latin America has slowed recently. To close the still-large gaps in living standards in relation to advanced economies, the region needs to significantly raise productivity, while making sure that the benefits are shared broadly across the population. This will require comprehensive structural reforms supported by pro-productivity institutions that incorporate social inclusion considerations from the outset.

The OECD has recently launched the *Global Forum on Productivity* to support discussions and analysis on productivity-enhancing policies and reforms among policymakers, researchers and the business sector. The new Forum will also facilitate the sharing of experiences and best practices among participating countries. Chile is a founding member of the Forum's Steering Group.

In Chile, 2016 has been declared as the "Year of Productivity" by President Bachelet, and, in this context, the country will host the first Productivity Ministerial of Latin American countries, a key regional event of the Global Forum on Productivity and the first deliverable of the forthcoming OECD Latin America and the Caribbean Regional Program.

Ministers of Economy and Finance throughout Latin America and the Caribbean are being invited to come to Santiago, Chile, in October 2016, to discuss the policy drivers of productivity in the region.

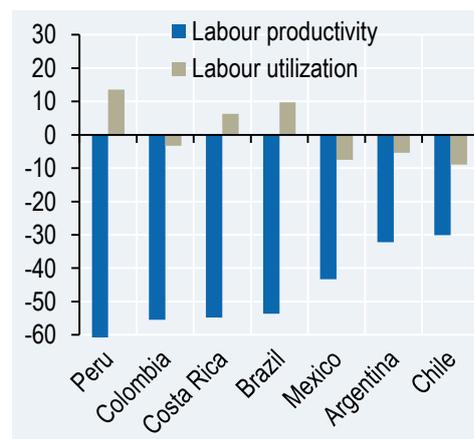
This Productivity Ministerial will feature:

- President Michele Bachelet making a major address on policies to boost productivity; and Ministers of Economy and Finance from Latin American countries discussing the policy challenges that their countries face, and share their experiences (on the first day);
- Renowned researchers from around the world presenting new insights on productivity growth, along with policymakers relating their experiences (on the second day);
- Business and labour leaders to discuss how they see the challenge of boosting productivity from their perspectives.

These discussions will draw upon the 2016 OECD Ministerial (Paris, June 2016), the *International Economic Forum on Latin America and the Caribbean* organized by the IDB, the OECD Development Centre, and the French ministries of Economy and Finance (Paris, June 2016), and the 2nd conference of the Global Forum on Productivity (Portugal, July 2016).

A special report on "Productivity in Latin America" is being prepared for release at the Productivity Ministerial in Chile. In addition to chapters by the OECD and IDB, it will include country notes on productivity challenges for fourteen Latin American countries.

Income gaps with the OECD are driven by low productivity levels (%)



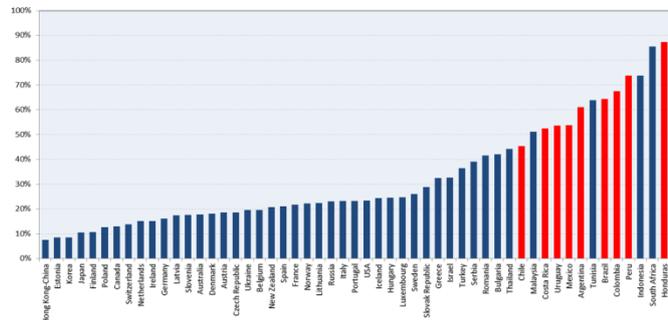
Source: OECD

What is constraining productivity growth in Latin America?

Poor human capital

Investing in education, skills and life-long learning is key to both improving labour productivity and spreading economic opportunities. Developing better skills is critical in the structural adjustment of economies, and can help Latin American economies rebalance and move from a relative dependence on commodities production to high value added manufacturing and service industries.

Percentage of students not attaining basic skills in math (Pisa 2012)



Note: Students do not attend basic skills when they are below 420 points in math exams in PISA. Source: OECD, PISA 2012 Database

Low investment in innovation and R&D

Public investment in basic research is required to support the continued emergence of breakthrough innovations, but both governments and the private sector in Latin American countries are investing very little in basic research. Knowledge diffusion mechanisms are needed to transfer this research to other actors. Higher and more efficient public funding of basic research are crucial for moving the global frontier.

Gross domestic expenditure on R&D (% of GDP)

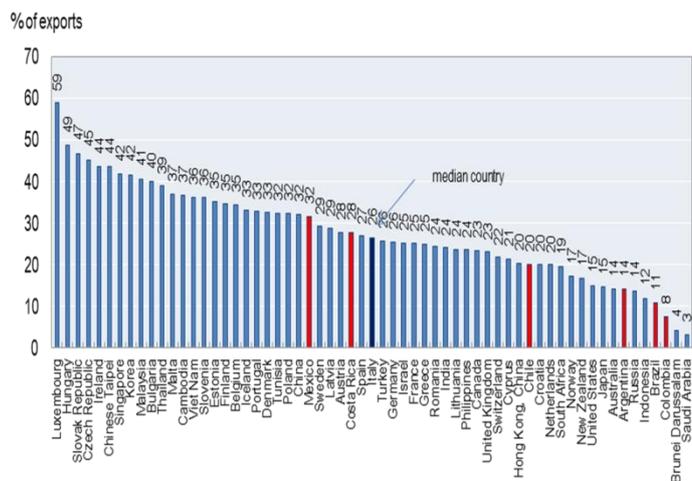


Source: OECD Main Science and Technology Indicators Database

Low participation in GVC

Future productivity growth will depend on harnessing the forces of knowledge diffusion, which propelled productivity growth for much of the 20th century. Scope for diffusion depends on key factors, one of them being global connections, via trade, foreign direct investment (FDI), participation in GVCs and the international mobility of skilled labour. Latin American countries have very low participation in GVCs.

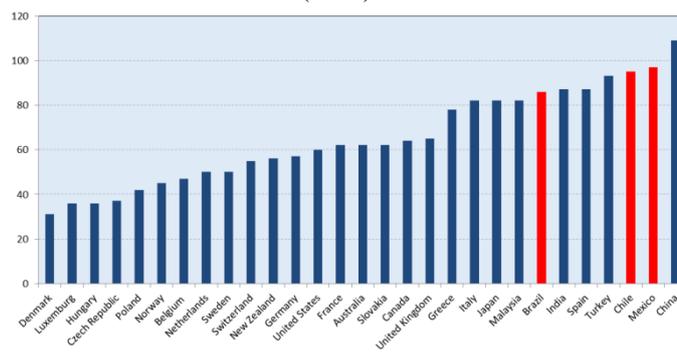
Backward GVC participation ratios % of gross exports (2011)



High skills mismatch

Recent OECD evidence shows that higher skill and qualification mismatch is associated with lower labour productivity. Higher skill mismatch, very common in LAC, is associated with lower labour productivity through a less efficient allocation of resources, presumably because when the share of over-skilled workers is higher, more productive firms find it more difficult to attract skilled labour and gain market shares at the expense of less productive firms.

Index of Qualification Mismatch (2012)

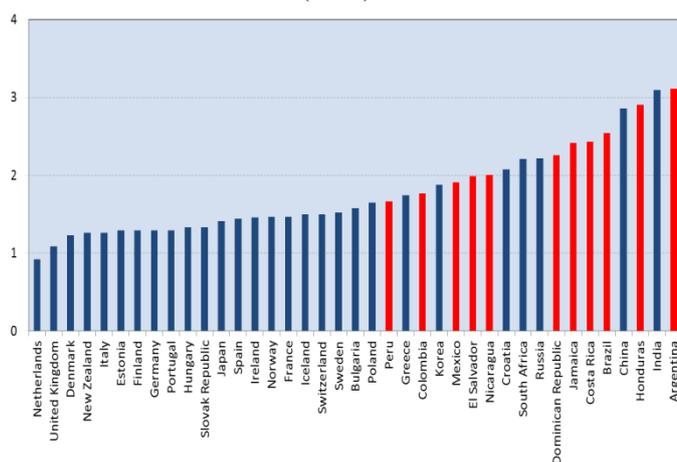


Source: Randstad Workmonitor (2012)

Lack of competition

The aggregate benefits of diffusion are magnified when structural policies foster the growth of the most productive firms. The primary reforms that promote firm growth are those that make product markets more competitive. This is an area where Latin American countries can improve significantly.

Product Market Regulation (2013)



Source: OECD (2015)

1st Day, 5 December 2016
Room

8.30- 9.00
9.00- 9.15

Accreditation/Coffee
- Welcome remarks by President Bachelet

9.15-10.00

Remarks and launch of the OECD-IDB Publication on Productivity in Latin America
- OECD Gabriela Ramos or Catherine Mann (TBC)
- IDB President Luis Moreno

10.00 – 11.00

Expert: Dani Rodrik

Since the return to democracy Chile has experienced solid economic growth based on a strategy that relies heavily on exploiting and exporting natural resources. But is clear that this strategy is not sufficient to sustain high economic growth and guarantee opportunities for all Chileans. The key to move to a new growth strategy based on productivity, which explains much of the gap on GDP per capita between Chile and developed countries. The Minister will, therefore, discuss the main objectives of Chile's new growth strategy, highlighting policies that facilitate and encourage diversification and productive development; promoting economic sectors with high growth potential; Increase firms' productivity; and generate new push for our exports.

11:00 – 11.30

Coffee Break – *Press conference*

11.30 – 12:00

Panel 1: Presentation of the 1st Annual Productivity Report of the Productivity Commission, by Joe Ramos President of the Chilean Productivity Commission – *Focus on "Economic Diversification"*.

12.15- 13:15

Address by Juan Jose RUIZ, Chief Economist, IDB
Why Productivity Matters?

In the long run, achieving strong, sustainable and inclusive growth, and increasing well-being, relies heavily on increases in the productivity of all factor inputs. Productivity growth, in turn, relies on technological change and innovation, and on how these are combined with other assets such as skills through organizational change. However, despite large and growing investments in knowledge and innovation, productivity growth in many countries has slowed in recent years. At the same time, there is an urgent need for more rapid innovation (including its uptake and diffusion) in several key areas, such as in environment.

13.15- 14.30

Lunch Ministerial.

14.30-15.30

Policy Panel 1: Stimulating productivity growth: the role of public policy

Introductory remarks and Chair: TBC

Productivity-enhancing policy settings will generally be of two kinds: those that address 'failures' in markets (e.g. research, training, infrastructure provision, bankruptcy, market dominance) and those



that address impediments created by governments themselves which can (often unintentionally) constrain productivity growth (e.g. inadequate regulations, trade barriers, import protection). In this session panel members will be encouraged to discuss how different policy settings can encourage or inhibit productivity growth.

Moderator: *Juan José Ruiz, Chief Economist, IDB. (TBC)*

Panellists:

- *Minister of Colombia*
- *Minister of Brazil*
- *Minister of Uruguay*

15.30 – 16.00 Coffee Break

16.00-17:00 Policy Panel 2: Productivity-enhancing institutions.

Introductory remarks and Chair: TBC

Given the present growth slowdown, governments are now facing tighter budget constraints, and therefore they must be very selective in how they allocate spending to facilitate private sector growth and attain larger per capita incomes. A key question is how governments can help in increasing productivity by boosting those sectors that influence productivity levels; i.e., should they invest in education, research or infrastructure? And which of those sectors provide the largest return in maximizing the chances of reaching a larger income per capita? Governments have created specialized institutions (e.g. Mexico and Chile) to conduct rigorous analysis of these impacts and to engage into a dialogue with interested stakeholders.

Moderator: *Mario Pezzini, Director Development Centre, OECD.*

Panellists:

- Minister of Mexico; Minister of Chile; Minister of Argentina – Presidents/Commissioners of Productivity Commissions such as Australia and New Zealand) followed by Q&A

17.15 – 18.00 Plenary session. Introductory remarks. Mario Pezzini, Director Development Centre, OECD. Closing Remarks by Luis Felipe Céspedes

19.30 Dinner in La Moneda



2nd Day, 6 December 2016

Room

8.30- 9.00

Registration

This morning session will gather academic leaders and top researchers to discuss what we already know about productivity in Latin America, and we should know. The goal will be to discuss the scope for establishing a permanent network of researchers with a focus on productivity drivers and productivity-enhancing policies.

9.15 – 9.45

Dani Rodrik: “How to boost productivity? What we know and do not know”.

10.00 – 11.30

4 parallel panels (2 speakers presenting papers, Q&A, chair’s summary)

- Cities & agglomeration – How do they affect productivity?
- Innovation, value chains and technology spillovers
- Inclusive productivity
- Firm dynamics – How to learn from micro data?

12:00-13:00

Joint session with the Steering Group of the LAC Regional Programme to;

- Present conclusions by panel chairs
- Discuss the establishment of LAC Productivity Network

