

Latin America's potential: Some snapshots

After performing strongly for almost a decade, many of Latin America's countries slowed in 2015, with average growth in the region falling below that of OECD countries for the second consecutive year. How can the region recover its momentum?

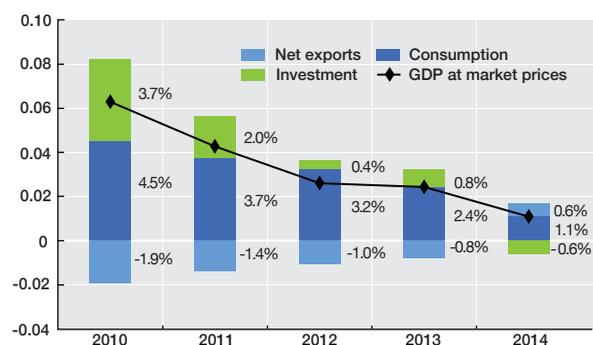
Growth in Latin America, which was strong before the crisis, started to ease from 2010. Loss of investment momentum is one of the key factors behind the recent slowdown. Investors' expectations have deteriorated over the past few years, partly because changes in the global context led to subdued external conditions including softer global demand, lower commodity prices and tighter financial conditions. Also, domestic factors such as policy uncertainty and the passing of reform bills (notably on taxes) may have had an effect in some countries. The contribution of public investment was not strong enough to compensate for the retrenchment of the private component; actually, in some cases, it even reinforced it.

Middle-income trap

Latin America's recent slowdown looks set to persist in the medium term, a trend that reflects a slowing global economy but also persistent regional weaknesses. These include low productivity and weak investment growth as well as high levels of inequality—28% of people in Latin America live in poverty. If the region's economies do not confront these challenges, many of them risk getting stuck in the middle-income trap—a phenomenon that sees countries hit a ceiling of growth and becoming unable to build on earlier success. Other economies, such as Korea and Spain, managed to escape the middle-income trap; some of Latin America's economies, such as Chile, Uruguay and Argentina, have also done so, but most have not.

» Slowing trend

GDP growth in Latin America and demand component's contribution, annual growth, %

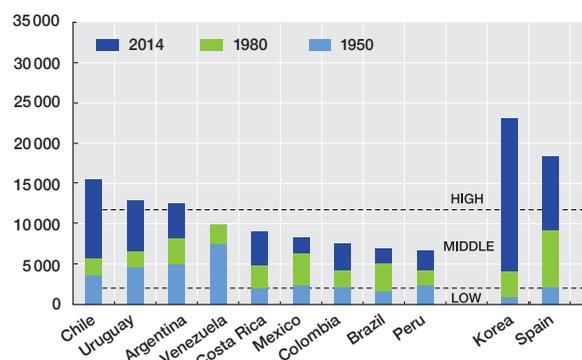


Source: OECD (2016), *Latin American Economic Outlook 2016: Towards a new partnership with China*, OECD Publishing

StatLink <http://dx.doi.org/10.1787/888933291400>

» Evading the middle-income trap

GDP per capita in selected Latin American and other economies US\$ Purchasing Power Parities; see Statlink for more countries



Source: OECD (2016), *Latin American Economic Outlook 2016: Towards a new partnership with China*, OECD Publishing

StatLink <http://dx.doi.org/10.1787/888933291317>

More data on page 94

FOCUS: Latin America and the Caribbean

The OECD LAC Regional Programme launched on 1 June with Chile and Peru as co-Chairs will support the region with a view to increasing productivity, enhancing social inclusion and strengthening institutions and governance.

Views and perspectives

The challenges that Latin America faces are enormous in magnitude and complexity. We are the most unequal region with a poverty of 28%, in which a high degree of precariousness and informality persists. It is imperative to seek ways to boost sustainable growth for the region, diversify our economies and increase our productivity. The OECD Regional Programme for Latin America and the Caribbean is an important step in this direction.

Michelle Bachelet, President of Chile

Latin America is currently implementing economic reforms to lead the region on the path of sustainable growth. We still face major challenges like poverty, informality and low productivity, which can only be tackled with decisive political will to promote sound public policies where social inclusion is at the core. The LAC Regional Programme is one of the most important OECD initiatives to strengthen efforts aimed at deepening reforms and creating conditions to overcome current obstacles to strong sustainable growth with social inclusion. Peru is committed to this goal.

Ollanta Humala, President of Peru

Colombia already has clear evidence of the impact that the OECD can have in a Latin American country. The accession process has initiated several institutional reform processes and triggered very important internal reflections. The OECD does well to turn their eyes towards our region, as evidenced by its new Regional Programme for Latin America and the Caribbean. This is a region that has much to learn and much to offer in experiences of social and economic policies.

Juan Manuel Santos, President of Colombia

We celebrate with deep enthusiasm the launch of the OECD Latin America and the Caribbean Regional Programme. We are convinced that this important initiative will contribute to closer ties between the OECD and the Latin American region and serve as a guide for the adoption and implementation of practices and policies that contribute to transform the region into a more transparent, prosperous and inclusive society.

Luis Guillermo Solís, President of Costa Rica

Uruguay has adopted measures and actions that accredit it as a State that meets international standards on transparency and exchange of tax information in order to combat tax evasion and money laundering. Recently, our country became an active member of the OECD Development Centre. We are confident that through these joint efforts we will succeed in promoting policies that improve the economic and social well-being of people around the world.

Tabaré Vázquez, President of Uruguay

Argentina has begun a new stage in its development that our Government summarises in three objectives: moving towards a country with zero poverty, fighting drug trafficking and uniting Argentinians. [...] Argentina is open to international co-operation and looks forward to working closer with the OECD to achieve effective policies in our country to improve the quality of life of our people.

Mauricio Macri, President of the Argentine Republic

The OECD has been a strong, close ally of Mexico's: the work of its researchers and policy experts enabled us to make better decisions, based on recent studies and successful international practices.

Enrique Peña Nieto, President of Mexico

In Latin America inequalities are not restricted to the income distribution; they are also common at the geographic, gender, or educational level, or in terms of access to services and opportunities. Since 2010 poverty has stopped receding, which shows the limits of cash transfer programmes. The solution lies in promoting structural change towards knowledge-intensive sectors with environmental sustainability, setting equality as the core objective and using policy as the instrument.

Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean

The OECD Regional Programme for Latin America and the Caribbean constitutes a valuable initiative to work together in promoting sustainable development in the region.

Enrique García, President of the Development Bank of Latin America

We have witnessed how the OECD contribution to the policy debate in Latin America and the Caribbean has led to economic and legal reforms, which have been key to building stronger and more transparent economies.

Luis Alberto Moreno, President of the Inter-American Development Bank

The region needs to enhance the quality of its institutions and public policies, striving to avoid reversals in its social gains, while at the same time diversifying its productive matrix, increasing productivity, boosting innovation and transitioning towards knowledge-based economies. Regional integration will be essential for this purpose, as well as a discussion on the different forms it is adopting. The Ibero-American General Secretariat (SEGIB) is proud to work alongside the OECD and the LAC Regional Programme in these endeavours.

Rebeca Grynspan, Ibero-American Secretary General

LAST WORD: A WRITER'S VIEW

Latin America is very fond of the word "hope." We like to be called the "continent of hope."

Pablo Neruda, quoted in *New Times*, 1987

Skills priority

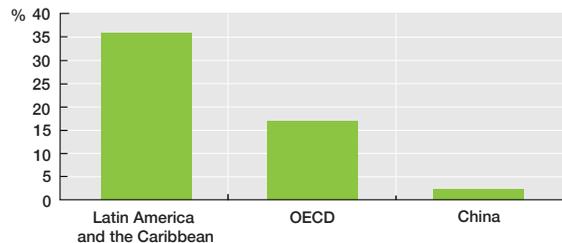
To escape the middle-income trap, Latin American economies must confront challenges in areas like productivity, economic diversification, innovation, regional integration, informal employment and social policies. Skills are also a priority. In second-ary education, the gap between the performance of OECD and Latin American students is equivalent to more than two years of schooling, according to 2012 PISA. At tertiary level, only around one in five Latin American students are studying a science, technology, engineering and mathematics (STEM) subject. And, more than in any other region in the world, employers in Latin America struggle to find the workers they need.

China's role

China will be a key factor in the region's future economic development, according to the *Latin-American Outlook 2016: Towards a New Partnership with China*. This will create both challenges and opportunities. Over the past 15 years, trade between China and the region has risen 22-fold, and today, China ranks as the largest trading partner for Brazil, Chile and Peru. At 73% of exports, the region's trade with China is dominated by commodities. The limitations of this export model highlight the need for Latin America to increasingly pursue higher value-added industries and activities. Both increased domestic and foreign investment are needed, and

Skills gap

Firms that face difficulties in finding their required workforce, %, circa 2006-09

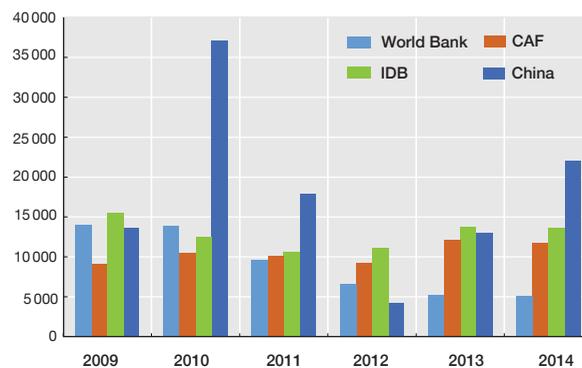


Source: OECD (2016), *Latin American Economic Outlook 2016: Towards a new partnership with China*, OECD Publishing

StatLink <http://dx.doi.org/10.1787/888933292011>

Loans to Latin America

From selected multilateral organisations and China, US\$ million



Source: OECD (2016), *Latin American Economic Outlook 2016: Towards a new partnership with China*, OECD Publishing

StatLink <http://dx.doi.org/10.1787/888933291344>

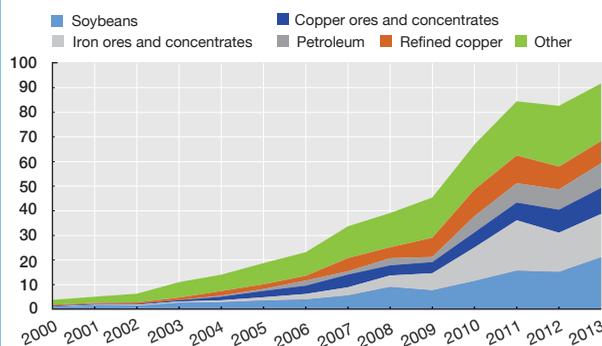
this is an area where China is already having an impact. Since 2010, loans from China have reached US\$94 billion, and continued investment looks highly likely. However, Latin American economies need to boost their trade agreements and platforms, and improve their focus on regulation, governance and transparency and environmental sustainability.

Reference

OECD, UN, CAF, (2015) *Latin-American Economic Outlook 2016: Towards a New Partnership with China*, OECD Publishing

Latin American exports to China

By product, US\$ billion, 2000-13



Chinese loans include loans provided mainly by China Development Bank and China Ex-Im Bank. World Bank loans are IBRD and IDA commitments. Development Bank of Latin America (CAF) loans refer to loans commitments, and Inter-American Development Bank data include loans and guarantees approved.

Source: OECD (2016), *Latin American Economic Outlook 2016: Towards a new partnership with China*, OECD Publishing

StatLink <http://dx.doi.org/10.1787/888933291696>