

## Is Latin America Falling Behind?

Interview with Augusto Lopez-Claros, Chief Economist, World Economic Forum, on the state of Latin American competitiveness ahead of the World Economic Forum Latin America Business Summit, in São Paulo, Brazil, April 2005.

Matthias Lufkens, interviewer



***In the World Economic Forum's Global Competitiveness Report, seven Latin American countries were among the 11 least-competitive nations of the world. What kind of institutional and political reforms do Latin American countries need to make in order to become competitive in the world economy today?***

Latin American countries in general need to make improvements in three areas. First, management of the public finances needs to improve in a major way. The region, with very few exceptions, has a long history of fiscal mismanagement, of governments that cannot rein in public spending and end up accumulating large levels of public debt. This, in turn, limits their ability to spend on education, on infrastructure and public health. Without adequate levels of spending in these productivity-enhancing areas, competitiveness inevitably suffers. Second, levels of transparency in public management and efficiency in the use of public resources need to be improved. Again, with few exceptions, Latin American countries do not do very well in a large number of indicators which assess different aspects of the institutional environment, whether we refer to property rights, the efficacy of the judicial system, levels of graft and corruption, and a deep-seated culture of bureaucracy which creates a burdensome regulatory environment. Third, there is a need to boost levels of education and training to catch up with other regions of the world. Nobel-laureate Amartya Sen sees education as being the main mechanism for empowering people to be active participants in the development process. With increased investment in education, not only will the Latin American economies be able to insert themselves more effectively into the global economy, but, as Sen points out, they will also be able to strengthen the quality of governance by raising the level of public debate about the critical choices that increasingly confront societies in the age of globalization.

***What kind of proactive business strategies do you see now being used in Latin America?***

There is growing awareness within governments that creating a sound climate for private sector activity is absolutely essential to ensure rising levels of per capita income. Publics are far more demanding of their governments than was the case 20 or 30 years ago. Increasingly, fiery speeches and demagoguery are seen by civil society as very poor substitutes for job creation, better public services and increased social protection. The combination of the information and communications revolution and the rapid emergence

of democratic forms of governance everywhere is proving to be an excellent mix to create incentives for governments to do things better than in the past, to be more responsive to the needs of the population. So, you see governments more focused on the formulation of better policies, more willing to look at the experience of successful countries and to do constructive self-examination. I think that the experience of Central and Eastern Europe during the past decade and a half has been quite sobering for us Latin Americans. Here is a set of countries that have been on the whole quite serious about economic reform and that in less than 20 years—a very brief period in the life of a nation—have managed to overtake—with the exception of Chile—every other country in Latin America in terms of competitiveness. This is impressive and a wake up call for Latin America.

***The imperfections of Venezuelan democracy are not unique in Latin America, so why do other countries' lapses not appear to excite the same interest outside the continent?***

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This may partly reflect the fact that Venezuela is an oil exporter whose government has used oil revenues to nurture a domestic constituency for its particular brand of “democracy” and, increasingly, to export it to other countries. What is especially noteworthy about Venezuela is that there has been a notable deterioration in the quality of the business environment, with serious concerns about property rights, the independence of the judiciary, waste in government spending and overall levels of corruption. Venezuela is not using oil revenues to enhance the economy’s competitiveness such as through a major improvement in the educational system or in the country’s dilapidated infrastructure.

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***How well do you think the new governments in Latin America will be able to harness their countries' resources to narrow the region's profound political and class cleavages?***

Democracy is fairly firmly entrenched in Latin America and, for the reasons outlined above, there is therefore hope that governments will have growing incentives to govern with the public interest in mind, not necessarily with a view to winning the next election. Ideally one would wish countries in the region to enter into the sort of “virtuous” circle that one sees in some of the more successful economies in the world, where sound macroeconomic management generates resources to invest in areas which boost competitiveness. This, in turn, enhances the credibility of the government with the business community and civil society, who then see that paying taxes and obeying the law make economic sense, because there are tangible, visible results in terms of the public good. As the economy enters on a path of sustainable growth incomes are boosted and government, business and civil society begin to operate as partners in the creative enterprise of building a better future. Sounds “romantic” but it is being done in a few places and there is no reason why most of the Latin American countries could not move in that direction. The benefits, in terms of human welfare, are massive, and lasting.