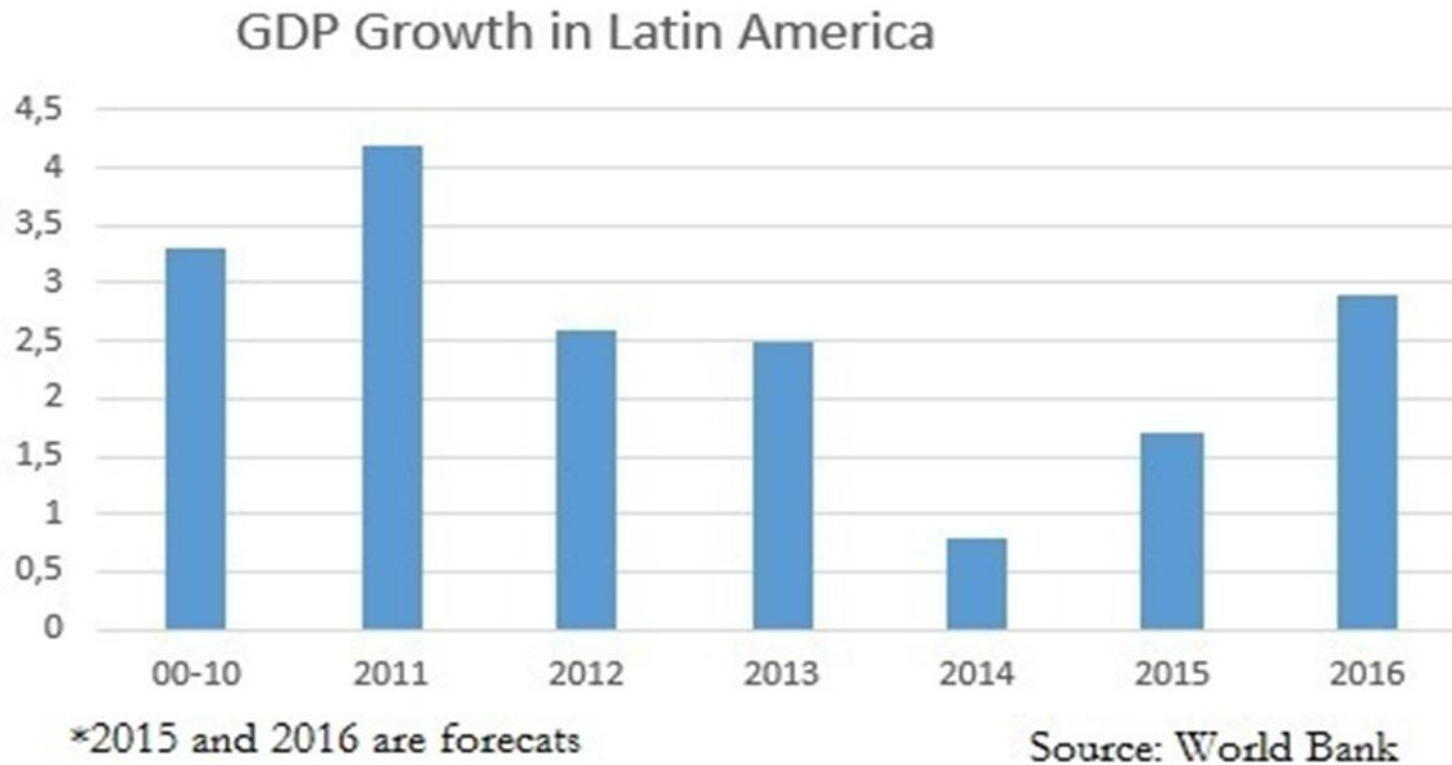


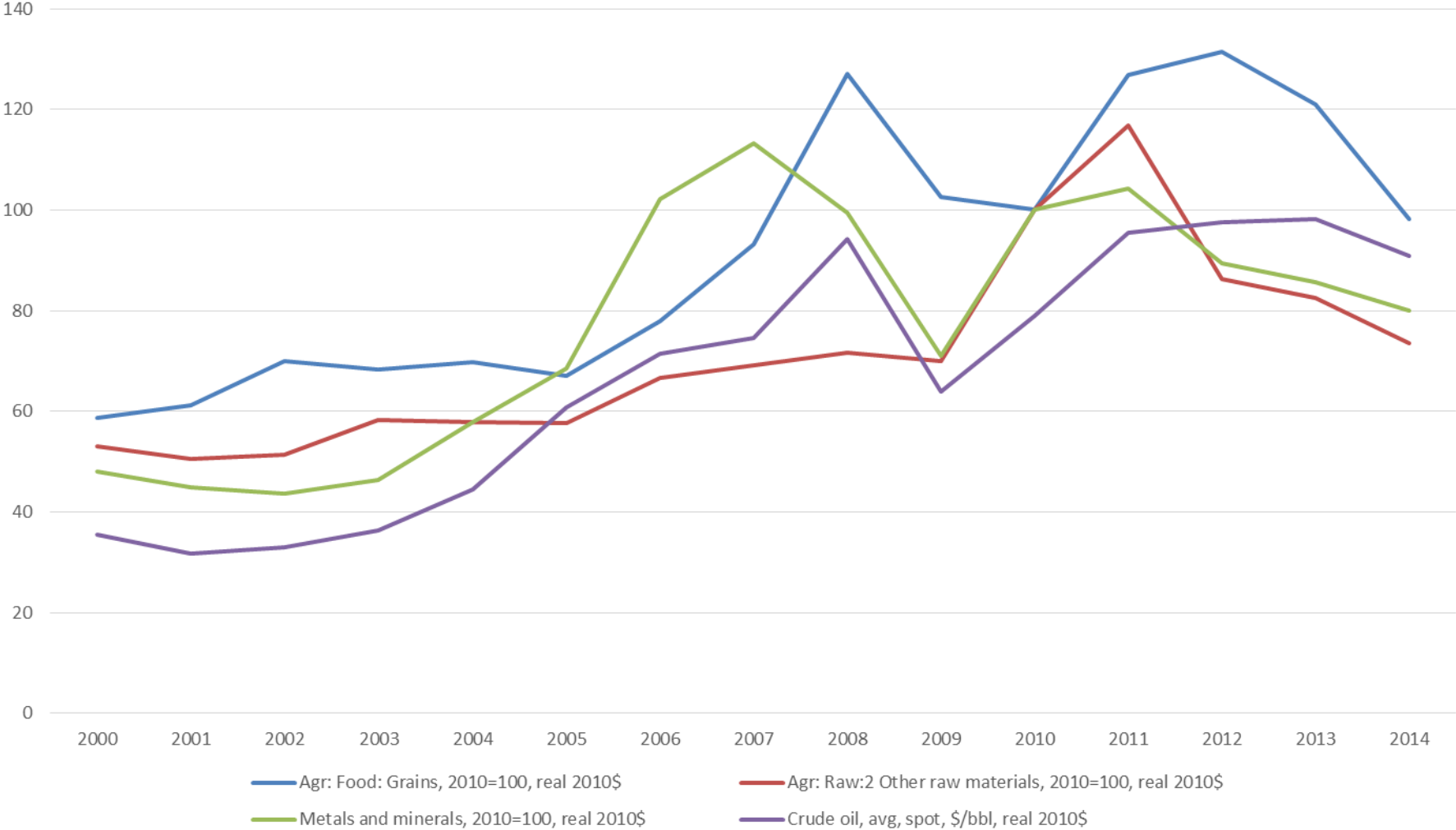
**Can Public Policy Improve
Economic Performance?:
*The Case of Latin America***

Thomas J Trebat
September 2015

GDP Growth in Latin America Has Fallen



A Frustrating Pattern in Commodity Prices: Boom and Bust



Source: WorldBank

The rise of China trade: demand for natural resources



Sources: The Economist
Google Images



A Natural Resource Curse?: Innovation Is Lagging



How do you go from copper to computers? | The Economist September 11th, 2010

The region continues to attract foreign investment

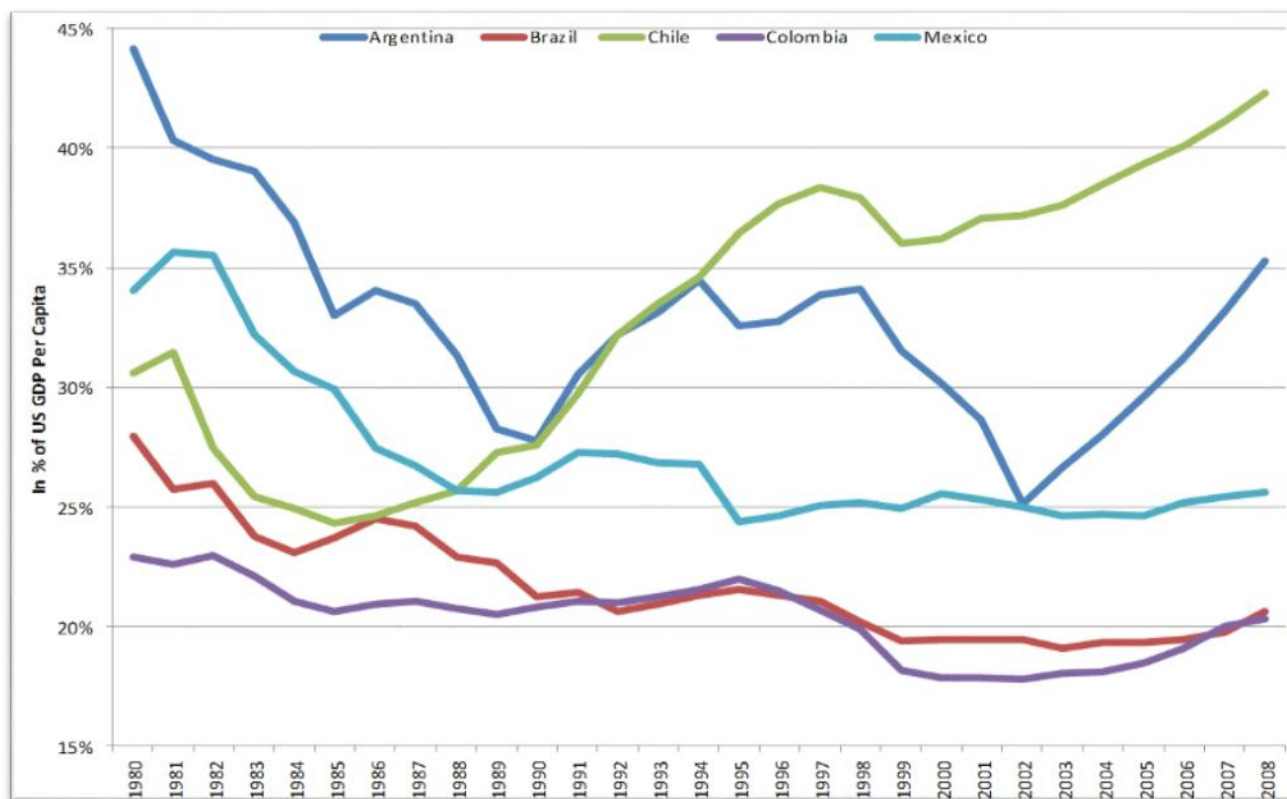
Figure 2

Latin America and the Caribbean (selected countries): inward foreign direct investment, 2013-2014
(Billions of dollars)



Source: ECLAC, 2015

Falling Behind or Catching Up?: Latin American GDP Relative to the US in the Last Thirty Years

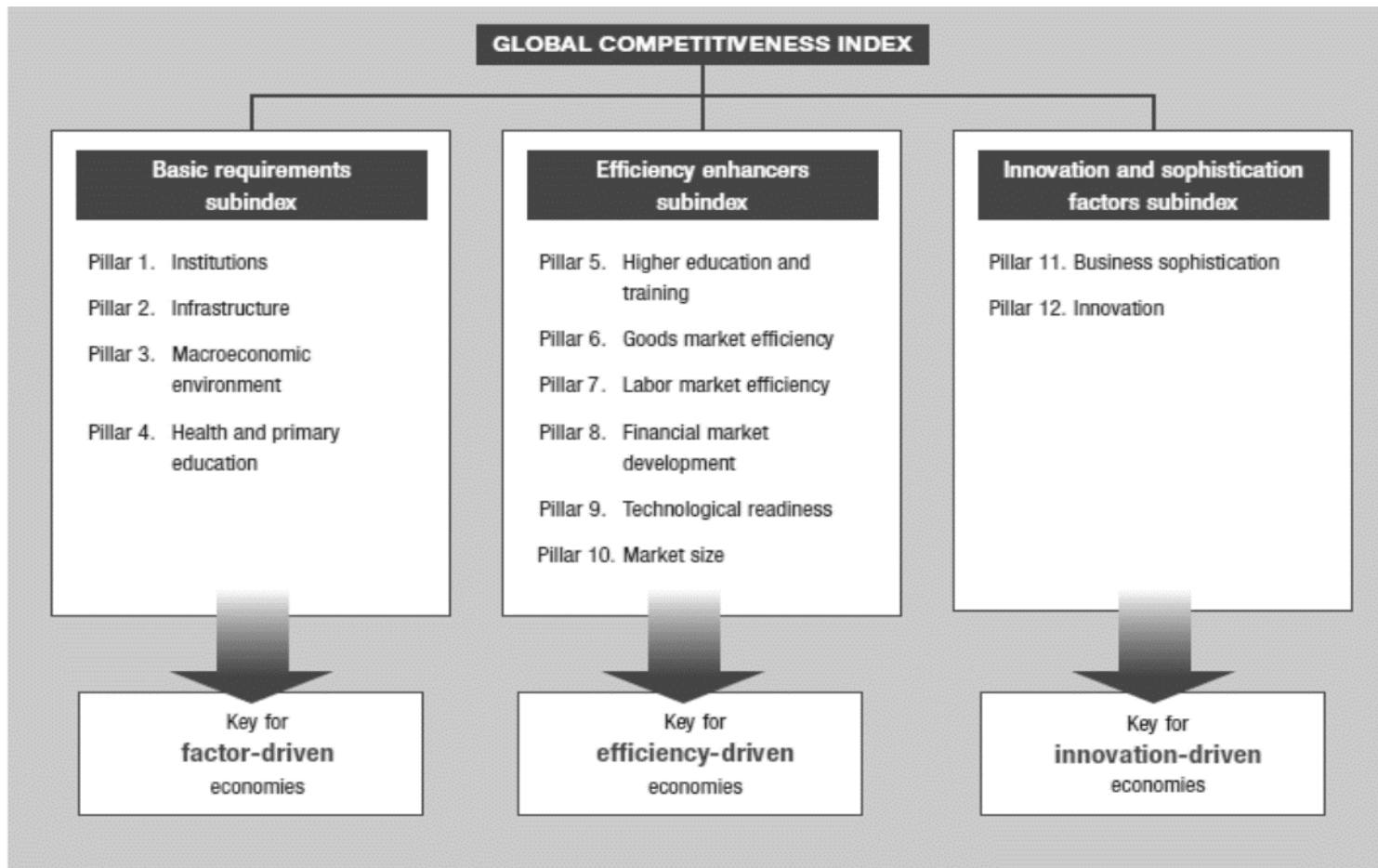


Source: Angus Maddison, World Economy

Productivity Per Worker = Competitiveness

- Many factors determine productivity in a modern economy
- The research points to three sets of variables as important (See Porter et al., World Economic Forum, Acemoglu and Robinson)
- Monetary and Fiscal Policy
- Social and Political Institutions and Infrastructure
- Microeconomic Factors
 - Quality of the national business environment

Theory of Economic Growth: twelve determinants of global competitiveness



Source: World Economic Forum

Income thresholds for establishing stages of development

Stage of development	GDO per capita (in US\$)
Stage 1: Factor driven	<2,000
<i>Transition from stage 1 to stage 2</i>	2,000 - 3,000
Stage 2: Efficiency driven	3,000 - 9,000
<i>Transition from stage 2 to stage 3</i>	9,000 - 17,000
Stage 3: Innovation driven	>17,000

Source: WORLD ECONOMIC FORUM

Latin America: Predicted Levels of Competitiveness Based on Observed Per Capita Incomes

Stage 1: Factor-driven	Transition from 1 to 2	Stage 2: Efficiency- driven	Transition from 2 to 3	Stage 3: Innovation Driven
<i>Bolivia</i>	<i>Guatemala</i>	<i>Colombia</i>	<i>Argentina</i>	<i>Puerto Rico</i>
<i>Haiti</i>	<i>Honduras</i>	<i>Peru</i>	<i>Brazil</i>	
		<i>Costa Rica</i>	<i>Chile</i>	
			<i>Mexico</i>	

Source: World Economic Forum, 2011

The Global Competitiveness Report 2014-2015

Latin America and the Caribbean



Latin America Top 10

The Global Competitiveness Index 2014-2015

Global rank*

Chile	33
Panama	48
Costa Rica	51
Brazil	57
Mexico	61
Peru	65
Colombia	66
Guatemala	78
Uruguay	80
El Salvador	84

Source: The Global Competitiveness Report 2014-2015

Note: * 2014-2015 rank out of 144 economies

A challenge of productivity in Latin America



Brazil in the Global Competitiveness Index 2013-14

	Rank (out of 148)
GCI 2013-2014	56
GCI 2012-2013 (out of 144)	48
GCI 2011-2012 (out of 142)	53
Basic Requirements (32.3%)	79
Institutions	80
Infrastructure	71
Macroeconomic environment	75
Health and primary education	89
Efficiency Enhancers (50.0%)	44
Higher education and training	72
Goods market efficiency	123
Labor market efficiency	92
Financial market development	50
Technological readiness	55
Market size	9
Innovation and sophistication factors (17.7%)	46
Business sophistication	39
Innovation	55

Source: World Economic Forum

In some aspects of innovation, Brazil compares favorably to China....

Innovation Rankings 1	CHINA	BRAZIL
Company research expenditure	23	30
Quality of research centers	38	42
Links between university and industry	29	38
Capacity to innovate	23	31

Source: WEF, 2012

General Overview of the Country

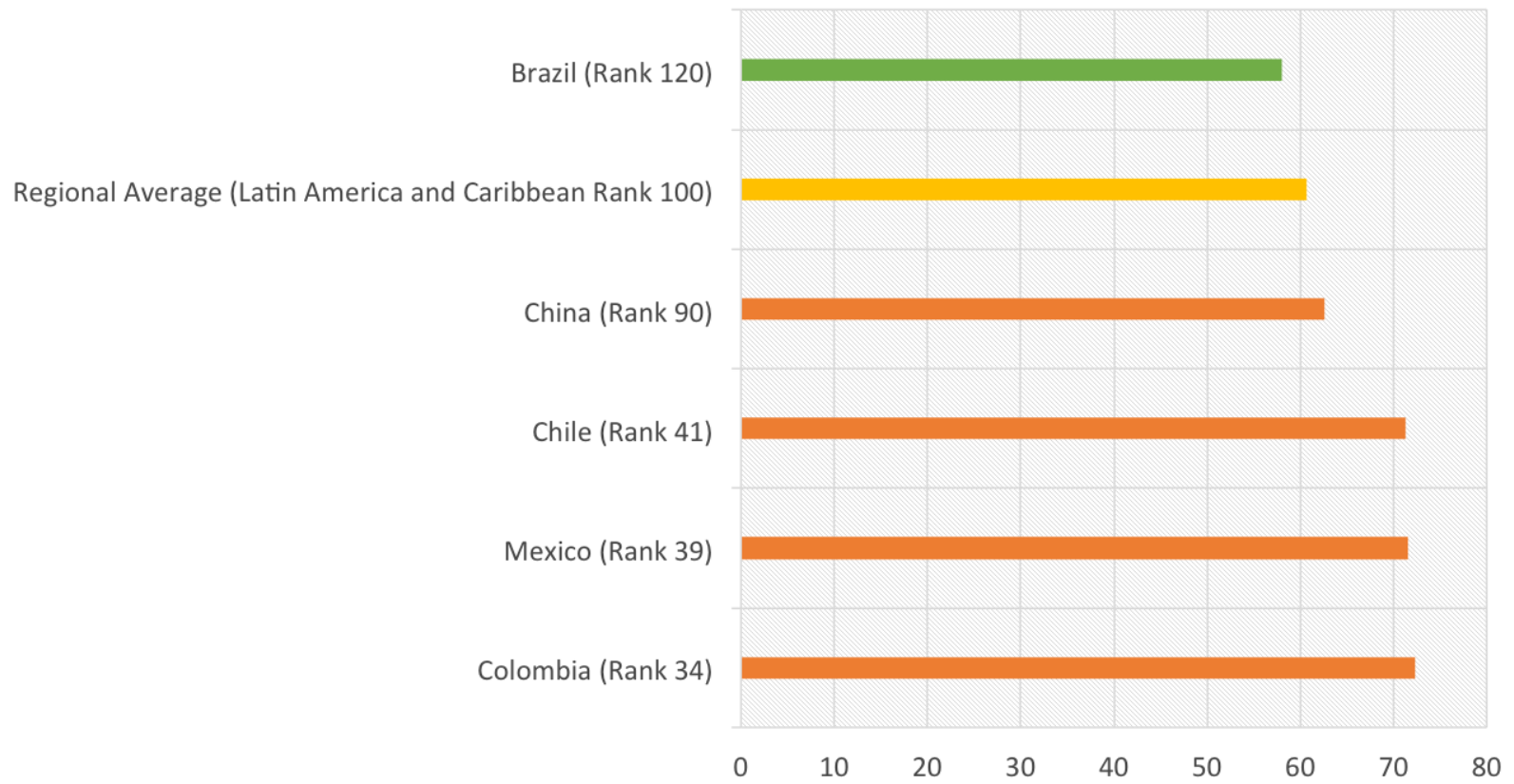
General Overview of the Country *

Region	Latin America & Caribe	Doing Business 2015 Classification	Doing Business 2014 Classification***	Change in Classification
Income Bracket	Middle to Upper Income	120	123	↑ 3
Population	200.361.925	Doing Business 2015 DAF** (% points)	Doing Business 2014 DAF** (% points)	Change in DAF ** (% points)
Gross Domestic Income Per Capita (US\$)	11.690	58,01	57,39	↑ 0,62
Target Cities	São Paulo, Rio de Janeiro			

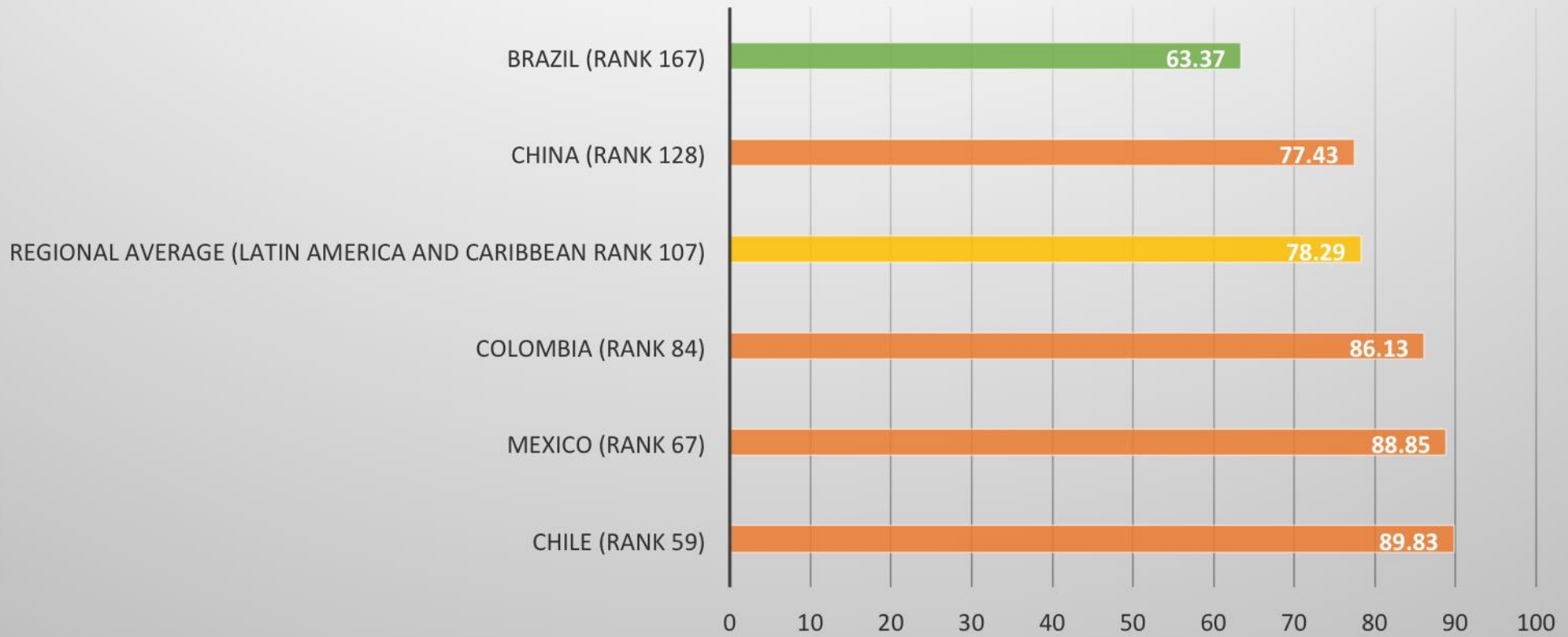
Brazil: Quality of the Business Environment

Rankings	Distance to Frontier	Distance to Frontier - São Paulo	Distance to Frontier - Rio de Janeiro
TOPICS	DB 2015 Rank	DB 2014 Rank	Change in Rank
Starting a Business	167	160	↓ -7
Dealing with Construction Permits	174	171	↓ -3
Getting Electricity	19	19	No change
Registering Property	138	137	↓ -1
Getting Credit	89	86	↓ -3
Protecting Minority Investors	35	35	No change
Paying Taxes	177	175	↓ -2
Trading Across Borders	123	126	↑ 3
Enforcing Contracts	118	118	No change
Resolving Insolvency	55	60	↑ 5

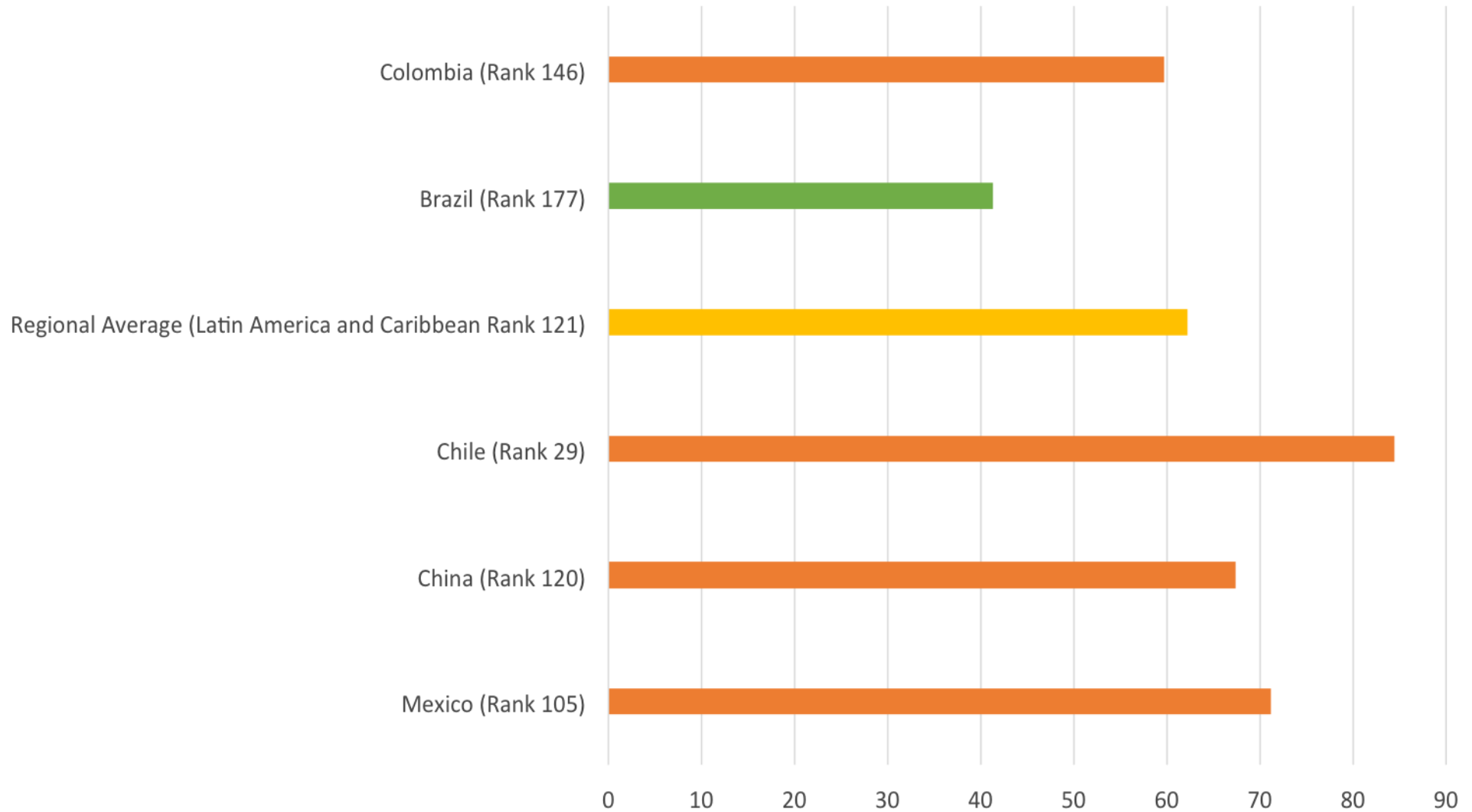
How Brazil and comparator economies rank on the ease of doing business



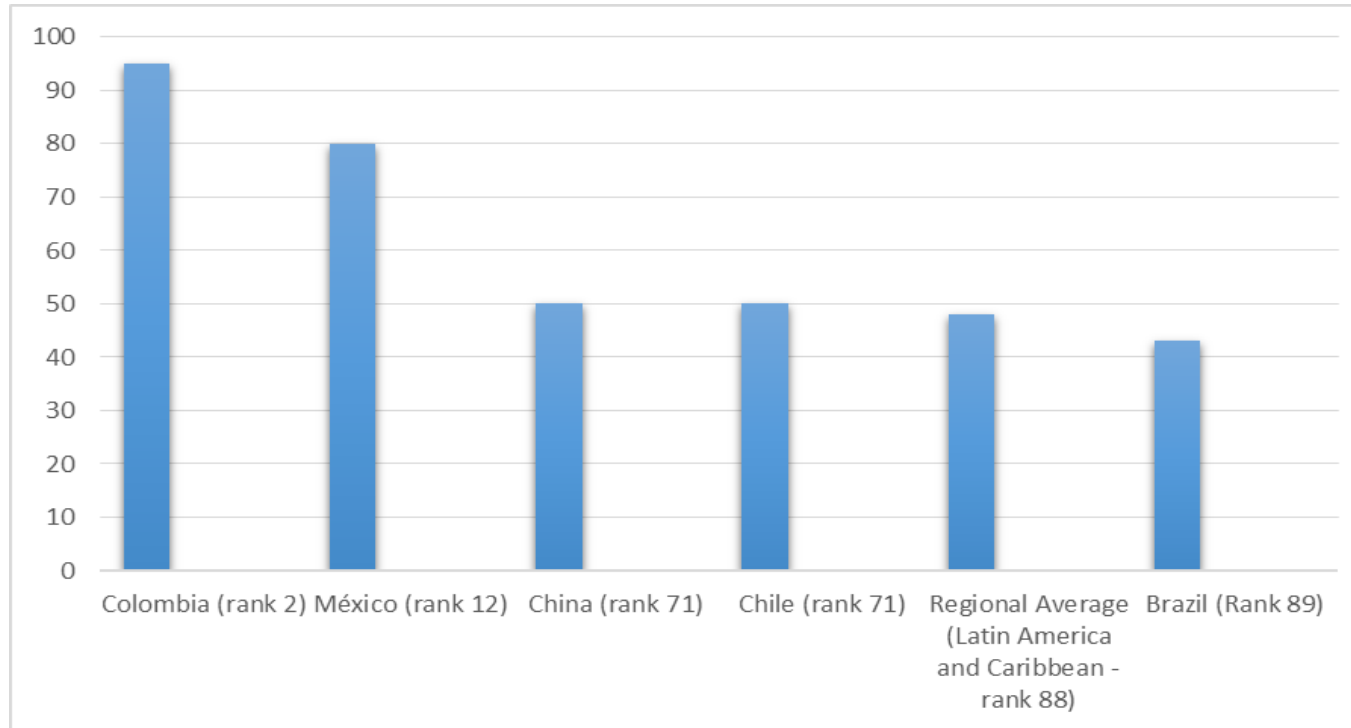
How Brazil and comparator economies rank on the ease of starting a business



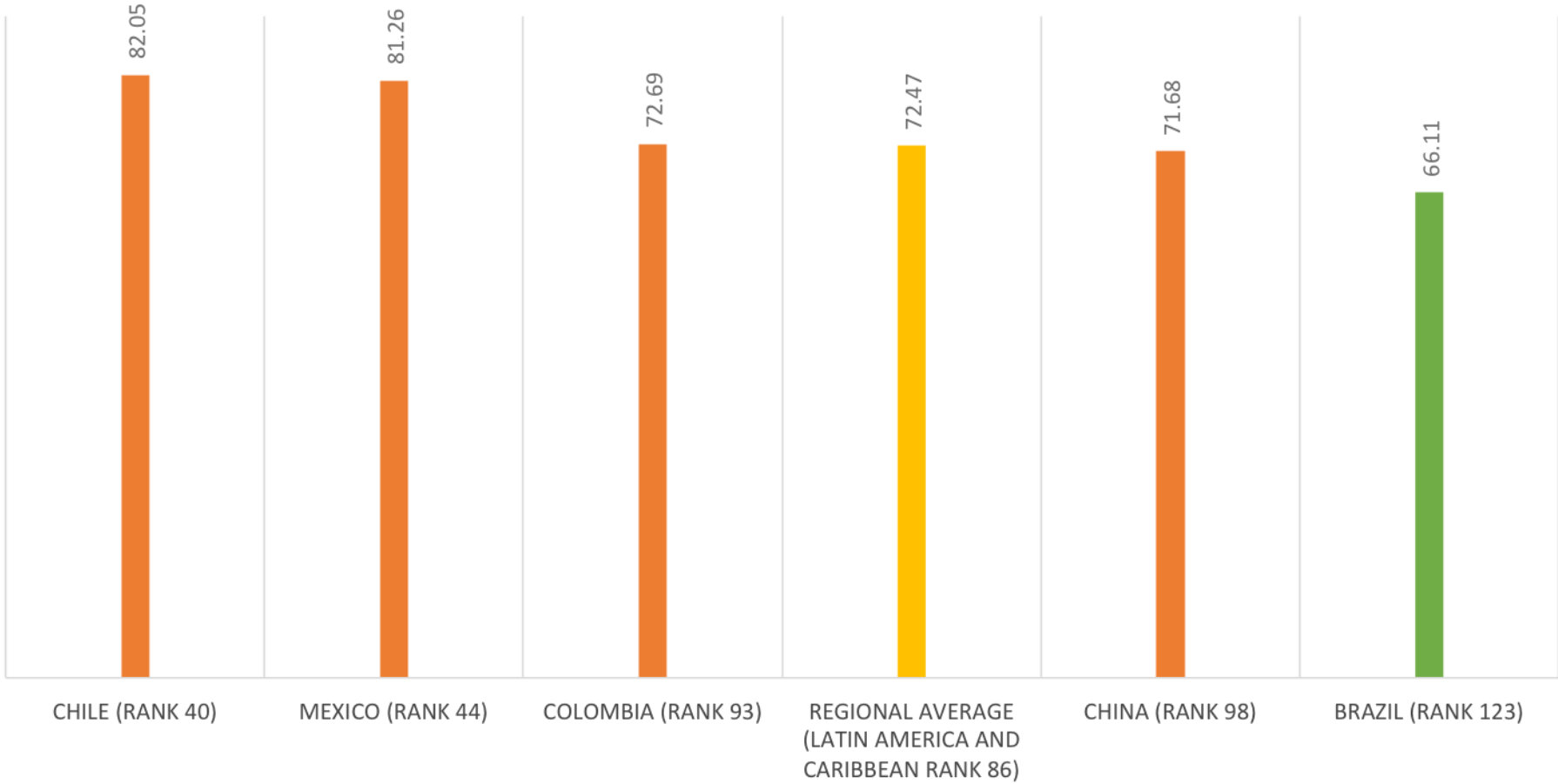
How Brazil and comparator economies rank on the ease of paying taxes



How Brasil and comparator economies rank on the ease of getting credit?



HOW BRAZIL AND COMPARATOR ECONOMIES RANK ON THE EASE OF TRADING ACROSS BORDERS



Conclusions: Public Policy Needs to Focus on the Business Environment

- Competitiveness is affected by many variables that, taken together, drive productivity (output per worker).
- Here, the focus has been on micro factors: the quality of the national business environment and the sophistication of company operations.
- In Brazil, this agenda is familiar, but the data clearly suggest that a new focus on micro factors can pay off substantially in terms of improved economic growth.
- This competitiveness agenda does not solely depend on the national government
- And it can be pursued even in times of economic crisis!

Thank you!
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