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Most Latin American economies will close 2014 with a downturn from 2013. For the Economic Commission for Latin America and the Caribbean (ECLAC), a worrying aspect of the downturn is the decline in investment, which contracted 3% for the region as a whole, lowering GDP. Alicia Bárcena, ECLAC executive secretary since 2008, estimates that for 2015 the common challenge in South America will be to increase private investment, which is crucial for raising productivity in countries like Brazil. “It’s a mistake to think that to increase productivity it will be necessary to cut wages, punishing workers: the focus should be on how to boost investment,” she said. Bárcena also argued for a convergence between Mercosur and the Pacific Alliance. “Brazil has great private companies investing throughout Latin America, which can contribute to the production supply chain,” she said.

The Brazilian Economy—In ECLAC’s Overview of the Economies of Latin America and the Caribbean, just released, you estimate a recovery of GDP growth in 2015 of more than 1 percentage point for Brazil and Mexico and more than 2 percentage points for Peru. What factors are these estimates based on?

Alicia Bárcena—The reasons differ for each country. In South America in general, one factor important for recovery is positive growth in Europe. Mexico’s projected 3.2% growth in 2015 will be related to
the recovery in the United States and the performance of exports to it. Also, higher public spending in the region will contribute to growth—a although not for Brazil.

For Brazil, where we forecast GDP growth at 1.3%, the expectation is centered on lower public spending, a better response to the international scenario, and completion of public investment projects that can raise confidence, attract private investment, and thus generate growth. Brazil is also reviewing its subsidies policy and contributions to the Brazilian Development Bank [BNDES] and seeking to increase tax revenues. The need for the economy to adjust, however, should not affect inclusive development, employment, and the income of the poorest. The government is now assessing what kind of adjustment can be done and what it will cost society. This is the central theme in Brazil.

Mexico also needs to boost its domestic consumption a little. This will be complicated. In Mexico incomes are low compared to Brazil, where the minimum wage policy allows poor people to participate in the domestic market. In the fiscal area, Mexico expects to begin reaping the benefits of tax reform and expanding non-oil revenue with higher value-added tax (VAT) in the border regions and this year’s introduction of the special tax on production services, which is an indirect tax levied on a variety of products ranging from gasoline to sweets. Peru has dealt with a major slowdown in recent years; its projected GDP growth of 4.5% will depend on higher ore production, fishing, and private investment.

Several South American countries, including Brazil and Chile, saw fixed investment drop significantly this year. What caused this, and what should Brazil do to attract private investment?

Brazil’s investment declined from 19.3% of GDP in 2013 to 18% in 2014. The global slowdown has depressed the appetite for investment in general, but also in Brazil in recent years investment was mainly driven by the public sector, with support from the BNDES. Private sector investment attraction was not energized. I believe [low private investment] also reflected high interest rates—or rather volatility in interest rates and the foreign exchange rate. This slowed both consumption and investment. The boost in public investment did not have the expected response.

In Chile, investment related to copper slowed, which is not new—commodity-exporting economies have been slowing since 2012, when prices began to fall and Latin America’s exports plunged from 23% a year to 2.3%. This year, the region’s exports will grow just 0.8%. This was reflected in a steep decline in investment because companies have become more cautious about buying equipment and starting construction. Chile’s investment fell from 23% of GDP to 21%. This has been happening in

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all commodity-exporting economies in the region. The difference is that Brazil has a more diverse and powerful economy; it is likely to come out of the downturn faster.

This year we had four presidential elections in South America, with presidents re-elected in Bolivia, Colombia, and Brazil and in Uruguay continuation in power of the Broad Front with the victory of Tabaré Vázquez. What can we read from these results?

In Bolivia, the performance of the economy has been interesting. This year it will grow about 5.2%; the government has been more prudent in macroeconomic policy, and more distributive regarding income. This created a space for an economic policy directed to supporting the social sector: wages went up and income distribution is fairer. … Colombia, too, was interesting. The country will grow 4.8% this year, with domestic demand still rising, strengthened by private investment and consumption. Unemployment went down. Public investment is expected to continue to grow. President Juan Manuel Santos announced an ambitious six-year plan for public investment of over US$25 billion in infrastructure. The government also announced a development plan, “All for a New Country: Peace, Equality and Education.” It follows five strategies: infrastructure and competitiveness, social mobility, agriculture transformation and green growth, consolidation of law, and good governance.

Uruguay also will have solid growth of 3.2% this year. It has an economic proposal for increasing competitiveness, especially in agro-industry, its main growth engine. It also has a clear inclusion policy in terms of rising wages and an important Financial Inclusion Act that seeks to encourage the use of credit cards. The labor market is dynamic, with low unemployment. Government’s central concern is inflation and curbing the deficit.

In Brazil, the proposal to adjust the economy without sacrificing social goals won the elections. President Rousseff’s economic policy is expected to maintain the gains in wages and income redistribution to reduce poverty. This is extremely important.

Rousseff, however, had a narrow victory. Some analysts argue that her employment protection policy is incompatible with growth because it hinders productivity. Do you agree?

No. Brazil’s focus should be to boost investment. It is necessary to regain the credibility of macro policy and attract private investment with a more predictable plan for raising
productivity. It is a mistake to think that to increase productivity it will be necessary to cut wages, punishing workers. Other countries in the region have shown that this is not the most viable path for sustainable growth. ... What is needed is for more people to participate in the economy with productive jobs. Brazil must be careful to avoid destroying the social fabric [the composite demographic consisting of its ethnic composition, wealth, education level, the employment rate, and regional values]. Our studies indicate that it can take 10 years for GDP growth to recover, but more than 25 years for the social fabric to recover. I think President Rousseff sees clearly that she needs to find ways to restart the economy and lower inflation; she needs to review the issue of high interest rates, regain macroeconomic policy credibility, restore access to external financing, and increase exports—but without sacrificing Brazil's social achievements.

Today it is common to talk about two ideologically opposed blocs in South America, one preaching open trade, and the other the more protectionist Mercosur countries. In November, ECLAC advocated the convergence of the Pacific Alliance (Chile, Colombia, Mexico, and Peru) and Mercosur. How could this be done?

It is not possible to have a Pacific Alliance without Brazil. It is impractical to think of regional integration without Brazil, which is one of the most important trading countries in the region ... . We suggested a working agenda between the Pacific Alliance and Mercosur that would involve companies themselves. Large and very powerful Brazilian companies are investing in Latin America, state-owned Petrobras, Vale, Friboi, Odebrecht, Gerdau, BR Foods, among others. They may contribute to a production chain. We are not recommending negotiating import tariffs. Our focus is the exchange of goods and services between Mercosur and Pacific Alliance member countries. Brazil remains a powerful engine of growth and trade in South America. If the member countries of both Mercosur and the Pacific Alliance agreed to convergence, much could be done in terms of trade in intermediate goods and services. We have assessed the potential of trade between individual members of the Alliance and Mercosur. For example, between Mercosur and Chile, there is important intra-industry trade in key segments like paper and pharmaceuticals. We identified 20 sectors with intra-industry connections [between the two commercial blocs].

But exchanges of goods and services are still modest, aren't they?

It is natural that trade between Argentina and Brazil represents 60% of intra-Mercosur merchandise trade. But we cannot forget, for example, that Brazil-Mexico trade represents 20% of total trade between Mercosur and
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the Pacific Alliance. Commercial relationships between Colombia and Mercosur are less intense, but Peru supplies many basic products to the Pacific Alliance, such as copper, oil, zinc, and silver. What we’re trying to do is break down the information to understand how the markets work, the weight of each good, the composition of exports of each country in each bloc, and the exchanges between the blocs. This makes us optimistic, because geographical proximity is gaining more and more importance, and it can bring benefits in terms of diversifying the production structure and exports in the region, which in turn can promote growth with equity and generate more jobs. This agenda is possible. We can work on trade facilitation, mobility of people, statistics of trade in services, and see how we are progressing. I think that in this area we have to move forward together, taking into account environmental sustainability, the geographical theme, and transportation, highlighting the role of the South American Council of Infrastructure and Planning. I see an important role for the Union of South American Nations.

To what extent could China become a threat to the creation of a value-added production chain in South America, recognizing China’s increasing role as an investor and a direct competitor in the region?

China is an opportunity. China has 1.4 billion people, Latin America has 600 million. China is seeking greater integration with Asia and now faces the Trans Pacific Partnership (TPP), which consists of 12 members of the Asia-Pacific Economic Cooperation forum, of which China is not a part. We could work with China in a more coordinated way on concrete issues, especially in the Community of Latin American and Caribbean States (CELAC), a forum in which China has proposed a framework for cooperation. But so far we have lacked a coordinated approach. Ties with China and other Asian countries can be very important for us. We have lost a lot by each country acting on its own. We have to do as China does in Asia: China exports products that were assembled elsewhere in Asia. This is the path we must take to create value-added chains in sectors such as food, which matters a lot to the Chinese. Why do we export raw material and not the value-added products of South American industries? That’s what we’re arguing for.