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Latin American Economic Outlook 2014

Logistics and Competitiveness for Development

Summary in English



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Clouds gather on economic horizon: After a decade of relatively strong growth, Latin America's economic prospects are becoming more convoluted in response to three main factors: declining trade, moderation of commodity prices and increasing uncertainty surrounding external monetary and financing conditions. This is a consequence of the euro area's weak performance, the slowdown in China's economy and uncertainty over U.S. monetary policy. Rising domestic demand could make up for some of the weakening in external demand, but as many Latin American economies are now converging towards their potential GDP from an expansionary period, domestic demand stimulus could increase imbalances. Thus, previous experiences in the region signal the need to carefully monitor the expansion of credit and ensure the sustainability of government spending.

Weakening economic prospects highlight structural challenges facing the region: In 2011, commodities accounted for up to 60% of the region's goods exports, up from 40% in 2000. The value of these exports rose over the past decade, but half this increase was accounted for by rising prices and not, as in the 1990s, by rising volumes. Furthermore, the rise in commodity exports has led Latin American economies to substitute locally made goods with imports, contributing to a slowdown in regional manufacturing.

Challenges come at critical time for emerging "middle classes": The past decade saw a substantial reduction in poverty as well as some lessening in inequality in Latin America. Meanwhile, there has been an emergence of a "middle class", whose evolving needs now pose a number of challenges for policymakers, as they call for access to efficient and high quality public services. There are also growing demands for more and better jobs, and the adoption of policies to improve productivity.

Latin America needs to raise its tax revenues: Responding to rising demand for public services will require governments to dedicate more resources to improved infrastructure, thus increasing the need for higher tax revenues. This will require reforms, including setting up institutions and rules to steer spending towards high-yield projects and strengthening the legitimacy of tax collection, thus resulting in increased tax revenue collection.

The region must meet the challenge – and seize the opportunities – created by Asia: The dynamism of Asia's emerging economies poses a challenge for the competitiveness of manufacturing in Latin America, but at the same time brings new business opportunities, to the extent that the Asian production structure continues to shift. Nevertheless, to benefit from these new opportunities, Latin America must diversify its exports and capture more value added.

Reforms should seek to increase productivity: Technological innovation is key for promoting the necessary structural change, which underpins diversification, increases productivity and reduces technology gaps in the region. Latin American countries should avoid excessive concentration of their export structures in natural resource-based commodities, as this can hinder the adoption of new technologies. Nevertheless, the income generated from the export of natural resources can serve as a foundation for advancing towards production that makes greater use of technology and knowledge. Such a shift would improve job quality for the emerging middle classes and strengthen the growth prospects of the region.

Industrial policy is a key factor in driving economic modernisation: The experience of the emerging Asian economies, as well as those of developed OECD countries, can be useful in guiding the design of new industrial policies for the region. In order to bring this about, Latin America needs strong institutions and more capacity to implement policies. This will facilitate progress towards a new type of knowledge-based and skillsbased specialisation, which will permit Latin American countries to move up in value chains and capture increased value added. As a starting point, countries in the region need to address existing supply-side bottlenecks, permit an efficient flow of goods and services, adopt simplified customs procedures, and improve their logistics.

Improved logistics performance could help bolster structural change in the region: In Latin America, 57% of the exports consist of perishable or logistics-intensive products. This proportion is, on average, 17% in OECD countries. Meanwhile, cargo costs, especially to destinations within the region, are relatively high while transport services can be unreliable. These logistical challenges are reducing the region's competitiveness and threatening the foundations of sustainable economic growth. For example, improvements to logistics services could boost labour productivity in the region by around 35%.

Better logistics raise competitiveness: On average, freight costs between the United States and its trading partners are less than double tariff costs. However, for Latin American and Caribbean partners, they are almost nine times higher. Despite substantial efforts to promote free-trade agreements which facilitate trade in goods and services, there is still a wide margin for action in bringing down logistics costs. Raising Latin America's logistics performance would help the region's economies reposition themselves within global value chains. Furthermore, improved logistics could improve SME export performance, as well as strengthening their productive linkages as a result of the reduced transaction costs.

The region needs to implement short-term solutions to reduce transport costs: Better roads, railways, ports and airports are essential for improving logistics. However, such projects require time and resources for their planning and execution. In the meantime, much can be done to improve the transport of goods and services using existing infrastructure. These "soft" solutions can include developing integrated logistics policies supported by the necessary governance and institutions; providing modern storage facilities and efficient customs and certification procedures; making better use of information and communication technologies; and promoting competition in transport.

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