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FEATURED Q&A

What do Large Informal Labor Sectors Mean for the Region?

Q While Latin America has an unemployment rate of 6.4 percent, nearly half of the region's workers, 47.7 percent, are employed in the informal sector, according to the International Labor Organization at the United Nations. While the trend in recent years has been a decrease in informal employment in the region, the ILO estimates that at current rates it will take 50 years to cut informal employment in half. How does having such a large number of workers in the informal sector affect the region's economic growth? Why is informality higher in Latin America than other parts of the world? What steps should be taken to accelerate the reduction of informality in the labor market?

A Jonas Prising, president of ManpowerGroup in Milwaukee: "Unpredictability, volatility and complexity are key features of today's labor markets. Economic, demographic and social factors have resulted in structural shifts in economies across the world whose consequences include high levels of unemployment, limited economic growth and low per capita income. Steps need to be taken to help drive stronger, inclusive and sustainable labor markets that match supply with demand. A lack of formal employment opportunities, particularly in emerging markets, can lead to higher levels of informal work. This is an especially acute risk for members of the younger generation. As Latin America becomes a major global economic player, harnessing the potential of its young and growing population is critical to fueling growth. There are also growing talent shortages; that is, available candidates not having the skills that employers need to fill available positions. In Brazil, ManpowerGroup's 2013 Talent Shortage Survey found that 68 percent of employers are struggling to fill jobs. Informal employment not only hurts reputable businesses and denies governments income from taxes, it also represents risks

Continued on page 3

Peru Headed for Slowest Growth in a Decade: Kuczynski

Peru's economy is heading for its slowest growth in a decade as the government is underestimating the decline of revenue from falling exports, former finance Minister Pedro Pablo Kuczynski said Thursday. See story on page 3.

Photo: Peruvian Government.

Inside This Issue

FEATURED Q&A: What do Large Informal Labor Sectors Mean for the Region?.....1

Obama Has Promised to Investigate Spying Claims: Peña Nieto.....2

Bolivian Anti-Corruption Official Accused of Extortion.....2

Chile's Economic Activity Sees Fastest Growth So Far This Year 2

Banco do Brasil Eyeing Creation of Investment Bank.....2

Peru Facing Slowest Growth in a Decade: Ex-Finance Minister 3

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NEWS BRIEFS

Chile's Economic Activity Sees Fastest Growth So Far This Year

Chile's economic activity in July grew at its fastest pace this year, thanks to mining and stronger domestic consumption, Reuters reported Thursday, citing an economic activity index. However, the increase was not as much as had been expected. The IMACEC index grew 5.3 percent in July. That marked the largest increase since January, when the index registered 6.3 percent growth. Analysts in a Reuters survey had expected an average increase of 6.1 percent. Peru's economic activity, as measured by the index, grew 4.1 percent in June and 6.3 percent in July 2012.

Banco do Brasil Eyeing Creation of Investment Bank

Brazil's state-run **Banco do Brasil** is in talks with its subsidiary **Banco Votorantim** to form a partnership for the creation of an investment bank, a source told Reuters on Wednesday. Banco do Brasil has not created an investment banking unit in the past because limitations on the pay and bonuses of employees of state-run companies make it hard compete with private companies. The source said the talks are still in the early stages.

Chile's CMPC to Close Rio Vergara Paper Plant

Chilean paper company **CMPC** announced Thursday that it will close its Rio Vergara plant, located in the south of the country, at the end of November due to increasing electricity costs, Reuters reported. Rising costs have been affecting the company's profit, and its second-quarter profits came in below forecasts. CMPC said the plant contributed less than one percent to its 2013 revenues and earnings.

Political News

Obama Has Promised to Investigate Spying Claims: Peña Nieto

Mexican President Enrique Peña Nieto said Thursday that his U.S. counterpart, Barack Obama, promised him an investigation into a report that the United States spied on the Mexican leader and Brazilian President Dilma Rousseff, BBC News reported. Peña Nieto and Rousseff both spoke with Obama on the sidelines of the G-20 meeting in St. Petersburg, Russia. The encounters happened just days after

> "What I got from President Obama was a commitment to a full investigation ..."
>
> — *Enrique Peña Nieto*

U.S. journalist Glenn Greenwald cited secret files obtained from U.S. National Security Agency leaker Edward Snowden in claiming that the spy agency intercepted phone calls, emails and other electronic communications from the Latin American leaders. "What I got from President Obama was a commitment to a full investigation ... and if they turn out to be true, to impose corresponding sanctions," Peña Nieto told BBC News after speaking with the U.S. president. "I think this proves a commitment to preserve the cordial relations and the ever-widening horizon we have between our countries." Rousseff was "furious" over the report, and may cancel her planned state visit next month to Washington unless she receives a public apology, Reuters reported Wednesday. Brazilian officials have already canceled a five-day visit by an advance team that was to travel to the United States to work out the details of Rousseff's trip. National security spokesman Ben Rhodes said U.S. officials had not received any notice of a delay in the planning of Rousseff's trip, Agence France-Presse reported. "What we're focused on is making sure the Brazilians understand exactly what the nature of our intelligence effort is," Rhodes told reporters earlier. "We carry out intelligence like just about every other country around the world. If there are concerns that we can address consistent with our national security requirements, we will aim to do so through our bilateral relationship."

Bolivian Anti-Corruption Official Accused of Extortion

The second highest ranking official in the anti-corruption unit of Bolivia's National Police has been detained in Miami on charges of attempting to extort thousands of dollars from the former owner of a Bolivian airline, the Associated Press reported Thursday. The official, Mario Fabrizio Ormachea Aliaga, flew to Miami from La Paz on Aug. 29 to meet with the former owner of **AeroSur**, Humberto Roca. The businessman had fled to the United States in order to avoid charges in Bolivia that he had given airline tickets to people Bolivian authorities called foreign mercenaries opposed to the government of President Evo Morales. Roca has said the charges are politically motivated and wants asylum in the United States, according to an FBI affidavit. In meetings between Ormachea Aliaga and Roca that were recorded by the FBI, Ormachea Aliaga allegedly told Roca that for $30,000, "he would drop the charges against [Roca] and charge someone else instead," the AP reported, citing the FBI affidavit. However, if Roca refused to pay, Ormachea Aliaga told Roca that he would be arrested in the United States and returned to Bolivia to face charges there, the affidavit added. Ormachea Aliaga was arrested after Roca gave him an initial $5,000 that the FBI provided. Gen. Juan Roberto Albarracín, the deputy commander of Bolivia's National Police, told reporters late Wednesday that Ormachea Aliaga's trip was not officially sanctioned, and that he was considered a deserter. Ormachea Aliaga has been removed from his position and is now under investigation, said Albarracín. Ormachea Aliaga was previously accused of crimes including the extortion of a former police commander who was being investigated for corruption connected to the management

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of housing for police officers. Ormachea Aliaga is scheduled to appear in court today for a bail hearing and is to be arraigned on Sept. 17. If convicted, he could face five years in prison.

Economic News

Peru Facing Slowest Growth in a Decade: Ex-Finance Minister

Peru's economy is facing its slowest stretch of economic growth in a decade as the country's government is underestimating the effects of lower revenues from exports, former Finance Minister Pedro Pablo Kuczynski told Bloomberg News Thursday. Decreased global demand for metals, which comprise nearly 60 percent of Peru's exports, will keep economic growth around 4 percent to 5 percent over the next two years, Kuczynski told the news service in an interview in Lima. Peru's economy, the sixth-largest in South America, will grow 5.7 percent this year and 6 percent next year, the Finance Ministry forecast on Aug. 28. Stronger growth in the United States and Europe will boost demand for metals, but that growth will not be enough to offset decreased demand from China, said Kuczynski. "The first six months of the year were not bad; the second half will be much slower," he said. "We're having a slowdown—that happens in the world—but we'll pull out of it in the next few years." The government of President Ollanta Humala has pledged to award $10 billion worth of contracts this year for the construction of railways, power plants and roads and also reduce government bureaucracy in order to help boost investment. Peru's Finance Ministry has predicted a fiscal surplus of 0.3 percent this year and a balanced budget next year. Investor optimism in the Andean country declined in July to its lowest level since Humala's election two years ago.

Humala

File Photo: Peruvian Government.

Featured Q&A

Continued from page 1

for workers. Informal work is closely linked with poor-quality jobs and insufficient social protection. Informal employment can therefore increase poverty levels, harming countries' development and reducing consumer spending. Increased formal labor market participation, including the private employment services sector, enables the creation of more work opportunities. The North American Free Trade Agreement has helped to increase international commerce, but it has not been enough. Countries still need to make investments in innovation and infrastructure, as well as education. Several actions need to be taken: Simplify legal frameworks to facilitate workers' transition to the formal sector. Increase collaboration between governments, business and educators to ensure education is aligned with employer needs. Encourage formal job creation through SME support. Create projects that require public and private investment. Create more flexible work models in order to remove barriers to women's participation. Having access to talent with the right skills is the key competitive differentiator in an era of certain uncertainty. Harnessing that talent is possible if governments, businesses and others work together to reduce informal employment and create more, and better, jobs."

Guillermo Vuletin, Fellow in the Global Economy and Development Program and ESPLA Initiative at the Brookings Institution: "During the last decade, Latin America grew at unprecedentedly high rates, mostly driven by favorable external factors including large capital inflows and historically high commodity prices. Generally speaking, the region has also earned several long-denied achievement ribbons due to good fiscal and monetary macro-management, as well as the implementation of large-scale social programs. A strong increase in economic activity and policy graduation in several macro and social policy areas, among other factors, led to the rise of the Latin American middle class. In the past decade, the region's middle class grew 50 percent and now represents 30 percent of the population, according to World Bank figures. In spite of this rise, the relevance of the informal economy has barely declined and a large number of workers still have off-the-books jobs without basic labor protections. Recent estimates for the informal economy in Latin America range from 40 to 60 percent, according to the ILO. Why is the degree of informality in the labor market still virtually unchanged in spite of the apparently exultant context of economic prosperity and policy graduation of the last decade? The answer relates to several domestic challenges and reforms still to overcome. Important determinants of informal markets such as tax and regulatory burdens, corruption, red tape, law and order, bureaucracy quality and education have barely improved in many countries during the last decade. Governments should intensively support domestic reforms aimed at improving these factors in order to fully integrate this marginalized segment of the workforce. Moreover, many of these still-pending informal labor-related reforms are also at the core of the desperately needed domestically-driven, growth-enhancing reforms. With the recent slowdown in global demand and increasing worries about a reversal in capital inflows and declining commodity prices, the region also cries out for domestically driven, growth-enhancing reforms. The above mentioned reforms would help increase productivity and

> "The relevance of the informal economy has barely declined ..."
>
> — *Guillermo Vuletin*

Continued on page 4

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Featured Q&A

Continued from page 3

investment opportunities which would, ultimately, allow the region to achieve long-term sustainable economic prosperity with economic inclusion."

Joana Silva, senior economist at the World Bank: "Across countries, a large informal sector often reflects a large share of low-scale, low-productivity firms and implies a small tax base and limited financing for public infrastructure. Moreover, informal sector workers often lack a written contract and/or pension and health insurance coverage, making them more vulnerable to old-age risks and health problems, with potential effects on labor productivity. Nevertheless, informal employment is the main source of income for many workers and may have positive effects on investment and growth by fostering innovation and entrepreneurship. 2013 World Bank data shows that the typical Latin American country employs most of its labor force informally, with around 61 percent of its labor force not contributing to social security. As such, informality in Latin America is higher than in the OECD, Europe and Central Asia, but lower than in the East Asia Pacific, South Asia and Sub-Saharan Africa regions. However, informality rates vary widely within the region. Poor public services, a burdensome regulatory regime, weak monitoring and enforcement capacity of regulation, and the productive and demographic structure all influence the size of the informal economy. Evidence from Brazil and Mexico shows that introducing business-friendly reforms (for example, simplified tax systems and one-stop-shops for business registration) or more frequent tax and labor inspections produce small improvements. Fostering competition, moving toward labor regulations that promote labor mobility and support during transitions, reforming existing social insurance systems and improving workers' productivity by building better skills are also necessary steps toward reducing informality."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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