

# Matéria

## Productivity in Latin America

### City limits

#### Once a source of economic dynamism, megacities risk becoming a drag on growth

**F**OUR out of five Latin Americans live in cities, compared with fewer than half of Asians or Africans. The region's 198 biggest cities—those with more than 200,000 people—account for 60% of its economic output, with the ten largest alone generating half of that. The productivity gains that flow from bringing people together in cities have been one of the drivers of economic growth in Latin America over the past half century or more. But congestion, housing shortages, pollution and a lack of urban planning mean that Latin America's biggest cities now risk dragging down their country's economies, according to a report\* by the McKinsey Global Institute, the research arm of McKinsey, a firm of management consultants.

Until the 1970s, Latin America's big cities led their countries' economic development. São Paulo saw annual economic growth of 10.3% from 1920 to 1970 and Rio de Janeiro of 7%, both faster than the 6.8% notched up by Brazil as a whole over that period. But in the decade to 2008 São Paulo's output grew only two-thirds as fast as Brazil's, whereas Rio de Janeiro managed a pitiful 3% of the national average. Of the

nine cities with the biggest economies, only Lima, Mexico City and Monterrey saw economic growth in this period that was above their countries' norms.

Some medium-sized cities—such as Curitiba and Florianópolis in Brazil, Toluca and Mérida in Mexico and Medellín in Colombia—are starting to show more dynamism than the urban behemoths. That is partly the healthy consequence of liberal economic reforms in the 1980s and 1990s: the previous policies of state-led import-substitution tended to concentrate economic activity close to the centres of political power. But McKinsey expects this trend to continue. It reckons that over the next 15 years most of the top ten cities will display below-average growth in population and output (one exception will be Rio de Janeiro, boosted by investment in offshore oil as well as the Olympic games of 2016). But other big and medium-sized cities will grow faster than the national average.

Unusually early in their development, Latin America's biggest cities may have ceased to reap economies of scale "because their institutional, social and environmental support structures have not



They could all be working instead

kept up with their expanding populations," McKinsey argues. Put more bluntly, the problem is that they are "congested, poorly planned and dangerous".

Latin America's overall record of productivity growth is poor, thanks to a toxic mixture of burdensome regulation, a large informal economy and a lack of innovation. Given the cities' economic weight, it is not surprising that many of the region's wider problems are reflected there. Compared with their peers in developed countries, Latin America's top ten cities are unsafe, suffer endemic housing shortages, poor schooling and weak health services. They are also inefficient in their energy use and waste management.

For example, every dollar of GDP generated in Chile's capital, Santiago, requires 60% more energy than a dollar of GDP generated in (much colder) Helsinki in Finland. McKinsey reckons that Bogota needs to double its housing stock by 2025. Overcoming Latin America's housing shortage and supplying its urban population with associated services (sewerage, water, gas and electricity) would require investment of \$3 trillion by 2025.

If cities are exacerbating, rather than mitigating, national ills, this may be because of a lack of urban planning. Unplanned sprawl leads to a shortage of green space, strains transport systems, and makes it hard for businesses or housing developers to find sites. All this is harder still when cities expand beyond their political boundaries, creating problems of co-ordination (Mexico City is split between the Federal District and the surrounding State of Mexico, for example). But the report also highlights some success stories. In both Monterrey and Medellín, public authori-

\* "Building globally competitive cities: The Key to Latin American Growth". McKinsey Global Institute, 2011.

- ties have worked closely with the private sector to foster innovation.

Along with land use, transport is the biggest headache facing city authorities. Vehicle ownership is likely to expand by 4% a year over the next 15 years, further clogging the streets. Curitiba stands out as an exception: 54% of journeys there are by public transport. The city's pioneering bus rapid-transport system has been copied across the region—in Bogota, Mexico City and Lima. In Bogota the number of daily public-transport journeys is equal to 75% of the population, whereas in Santiago this number is only 50%.

More is needed. Experience in Europe and Asia shows that public authorities can increase the efficiency of goods distribution in cities by getting private firms to share their lorries. And although metros are expensive, the cost of not having them may soon be even greater.

### Education in Chile

## We want the world

### SANTIAGO A trial of strength between students and the government

IT BEGAN on August 4th with the metallic clink of a few pots and pans. By nightfall, thousands of people were on the streets of Santiago banging kitchenware, a form of protest last heard under the dictatorship of General Pinochet. This time the caceroleros, as they are called, are being staged in the name of educational Utopia—and in response to a cack-handed government ban on marches.

Chile's school system is the least bad in Latin America, according to the OECD'S PISA tests, which compare educational attainment across countries. But that does not make it good. And the overall performance hides huge disparities. Analysis done in Chile of the test results in the 65 countries that took part finds that it ranked 64th in terms of the variance of the results according to social class. Rich pupils get good private education; poor ones are condemned to underfunded, dilapidated state-funded schools.

This "educational apartheid" as Mario Waissbluth, a campaigner, puts it, is widely blamed for the fact that Chile remains a highly unequal society, despite its dramatic progress over the past quarter of a century in reducing poverty. "The kids from the posh suburbs study in those suburbs, go to university in those suburbs, get jobs as company executives in those suburbs and employ friends from the schools they went to themselves," says Mr Waissbluth.

The centre-right government of Presi-

dent Sebastian Piñera agrees. Chile inherited from the dictatorship a voucher system under which the government pays money to the school of the parents' choice. In November the government unveiled a plan to increase the value of the voucher, especially for the poorest children. As well as trying to attract better teachers to state schools, the government will set up 60 lycée-style "schools of excellence" aimed at bright children from poor families.

Students and teachers responded by demanding the abolition of all for-profit education. After they staged big marches along the Alameda, Santiago's main thoroughfare, Mr Piñera last month sacked his unpopular education minister. The government also said it would draw some \$4 billion from its reserve fund of windfall copper revenue to pay for better schools.

On August 1st the new minister, Felipe Bulnes, published new proposals. He proposes to put the national government, rather than municipalities, in charge of state schools. Any chance that this would settle the dispute was scotched when the government decided to ban protests in the Alameda. The students have since twice marched anyway. On August 4th break-away groups of masked youths, with little apparent interest in learning, set up barricades, fought police and looted. Five days later the pattern was repeated.

But many of the student leaders appear articulate and reasonable. For now they seem to have public opinion on their side. A recent opinion poll gave Mr Piñera an approval rating of just 26%, the lowest of any president since Chile returned to democracy in 1990. The students are unlikely to win their demand in full. But they have damaged Mr Piñera, perhaps permanently.



They're the ones with the kryptonite

### Brazil and Colombia

## Less far apart

BOGOTÁ

### A wary friendship begins

THEY are the biggest and third-biggest countries by population in Latin America. They share a border of almost 2,000km (1,250 miles). But Colombia and Brazil get along badly. In 2009 mistrust burst into the open, when Brazil's then president, Luiz Inácio Lula da Silva, grumbled in public about an agreement negotiated by Colombia's Álvaro Uribe to update the terms under which American forces could use seven military bases for joint action against drug-trafficking and guerrillas.

Now there is a concerted effort to improve ties. On August 4th Lula led a group of Brazilian business moguls to Bogotá, invited by the Inter-American Development Bank (IDB) to discuss ways of boosting trade between the two countries. This has quadrupled since 2004, but at some \$3 billion last year amounts to less than 1% of the two countries' total trade.

The Amazon basin is a huge barrier to commerce. There is no road between Colombia and Brazil. According to the IDB, it costs a Colombian exporter slightly more than a Canadian to ship goods to Brazil. The bank reckons that trade could double in five years with lower import tariffs, better customs procedures and improved transport links.

Political ties are warming, too. Lula's government disliked American military aid to Colombia. Colombian officials complained that Brazil showed little solidarity with their democracy's fight against the narco-guerrillas of the FARC. Brazil seemed tacitly to side with Venezuela's Hugo Chávez in his frequent clashes with Mr Uribe.

"There was much distrust," between him and Mr Uribe, Lula admitted, adding that their successors, Dilma Rousseff and Juan Manuel Santos "can do much more". Mr Santos has let the base agreement with the United States drop, and has made better relations with Brazil, Venezuela and South America a priority. One sign of that also came on August 4th when Nelson Jobim, Brazil's defence minister, signed a border-security agreement, which includes a provision for the "hot pursuit" of traffickers and guerrillas.

Sadly for Colombia, Mr Jobim was sacked that night by Ms Rousseff. The reasons were unrelated, but his replacement, Celso Amorim, was associated with the pro-Venezuelan policy as Lula's foreign minister. A friendship has begun, but it remains wary.