

THE OPPENHEIMER REPORT

Latin America snarled in red tape

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What irony! When it comes to cutting government red tape and creating a probusiness atmosphere, communist-ruled China, Vietnam and former Soviet Bloc countries in Eastern Europe are moving much faster than most of Latin America.

A new World Bank report -- *Doing Business 2008* -- which looks at the ease of doing business in 178 countries around the world, says that countries such as Croatia, Georgia, Estonia, China, India and Egypt were the most aggressive last year in adopting pro-business reforms. Their reforms include making it easier for entrepreneurs to open a company or fire underperforming workers.

By comparison, Latin America and the Caribbean were "at the bottom of the list of reformers," the study says. With the exception of Colombia, which embarked on major reforms last year, Latin America "is falling further behind other regions" in the pace of business-friendly reforms, it says.

Before we get into whether this assessment is fair or important, let's look at some of the report's findings:

- It's much easier to start a new business in former Soviet Bloc countries than in most Latin American countries.

While it takes only one legal procedure to start a new business in Australia -- whether it's a mom-and-pop grocery store or a manufacturing plant -- it takes four in the United States; five in Estonia, Georgia and Latvia; eight in Mexico; nine in Chile; 10 in Peru; 11 in Colombia; 14 in Argentina; 16 in Venezuela, and 18 in Brazil.

Measured in days of legal procedures, it takes two days to start a new business in Australia, six in the United States, about 10 in most Eastern European countries and 75 days on average in most Latin American countries (27 days in Mexico and Chile, 31 in Argentina, 42 in Colombia, 65 in Ecuador, 72 in Peru, 141 in Venezuela and 202 in Haiti).

Opening a business amounts to such a bureaucratic nightmare in Latin America that a sizable number of the poor in the region operate in the underground economy, as street vendors or operating unlicensed businesses. This prevents countries in the region from collecting taxes from much of their populations.

- It's easier for a company to fire an underperforming worker in China, Vietnam or India than in Argentina, Bolivia or Venezuela.

While an employer can fire a worker without paying anything in the United States, Denmark, or New Zealand, employers must pay a fired worker 36 weeks of salary in Estonia; 52 weeks in Chile, Peru and Mexico; 56 weeks in India; 87 weeks in Vietnam; 91 weeks in China, and 139 weeks in Argentina. In Venezuela and Bolivia, firing an employee is "not possible," the report says.

Consequently, employers in the region are reluctant to hire new workers or make new investments, the report says.

The authors of the report concede that the slowdown of business-friendly reforms in Latin America last year may have been because there were about a dozen elections last year, and governments tend not to embark on pro-business reforms at election time.

Still, if you look at the World Bank's ranking of the most business-friendly countries around the world -- which reflects their overall standing, rather than their pro-business reforms in the past year -- former Soviet Bloc countries have surpassed all Latin American countries.

Chile is the most business-friendly Latin American country, followed by Mexico, Peru, Panama, Colombia and El Salvador. China, Vietnam and Botswana are ahead of Argentina, Brazil, Ecuador, Bolivia and Venezuela.

My opinion: It's ironic that while allegedly socially conscious Latin American leaders like Venezuela's narcissist-Leninist President Hugo Chávez lash out daily against capitalism and the free market, the countries that are reducing poverty the most are the ones that have most aggressively courted capitalists.

Asia has reduced its poverty rate from 51 percent of its population in 1970 to 19 percent today. By comparison, Latin America has only reduced poverty from 43 percent to 39 percent over the same period, according to United Nations figures.

The new report should be a wake-up call for Latin American countries. If cutting red tape and removing obstacles to employment helps attract investments and reduce poverty everywhere else in the world, it's time to do away with demagoguery and do the same in Latin America.