

CHART OF THE WEEK

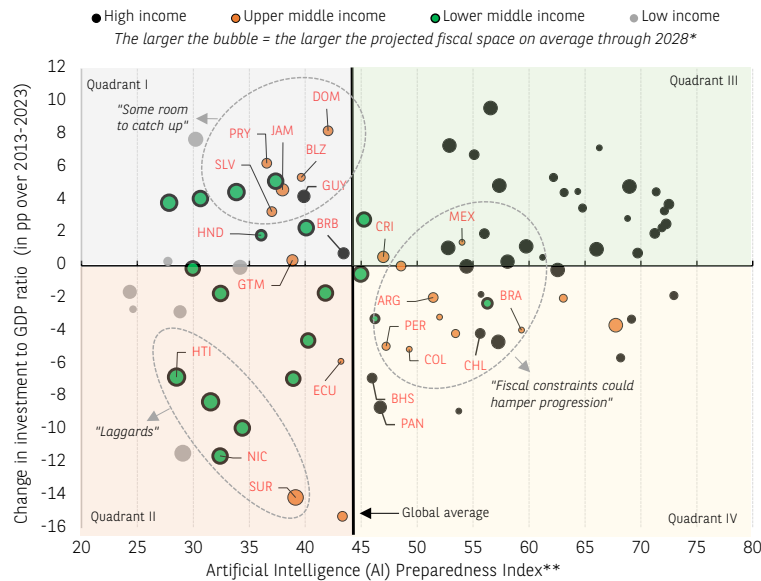
CHART OF THE WEEK

29 March 2024

HOW READY IS LATIN AMERICA TO MEET THE ARTIFICIAL INTELLIGENCE (AI) CHALLENGE?

Salim Hammad

Latin America: unequal in meeting the AI challenge



*Projected fiscal space proxied by real interest rate (r) to real GDP growth (g) differential (period = 2023-28)
 ** Using Oxford Insights' (a) Technology sector pillar (size, innovation, human capital) + (b) Data/Infrastructure pillar

Source: Oxford Insights, IMF Fiscal Monitor & WEO, World Bank, BNP Paribas

Oxford Insights' AI 2023 preparedness index¹ offers a great starting point to harness the digital divide across the region with Brazil and its vibrant Fintech sector on one end of the spectrum and Haiti on the other, lacking basic infrastructure. To that point-in-time snapshot, however, we can add a backward-looking component (investment rate over the past decade) and a forward-looking one (projected fiscal space) to get a more complete picture of some of the challenges lying ahead as the region furthers its digital transformation. In doing so, we can broadly identify three clusters across the region.

- One group in quadrant II ("the laggards") tends to be weakly prepared to embrace AI opportunities. Unsurprisingly, the weak degree of readiness for that grouping is highly correlated with income level. Further, these economies tend to have a much weaker capacity to invest and attract investment, as seen over the past decade. That group is most at risk of suffering from the increasing digital divide brought about by the AI revolution with likely strong knock-on effects;
- Another cluster in quadrant I ("some room to catch up") tends to score below the global average in terms of AI preparedness but some countries in that grouping are seemingly better positioned to move up the scale in coming years. Indeed, many economies in that cluster have managed to increase their investment rate over the past decade and are projected to have more fiscal space to jump start public investment compared to some larger economies in the region;
- Finally, one last group straddling quadrants III and IV ("fiscal constraints could hamper progression") scores above the global average and the rest of the region in terms of AI preparedness. Many economies in that cluster, however, are coming off years of either stable or decreasing trends in investment rates. Their projected fiscal space also tends to be more limited. In the absence of measures to stimulate private investment (both foreign and domestic), these economies could have a harder time progressing up the rankings (the best in class typically couple high readiness with improving investment ratios.)

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¹The chart integrates the (a) Technology sector and (b) Data / Infrastructure pillars of the Oxford Insights 2023 index (the Government pillar was discounted).

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Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: group.bnpparibas - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: William De Vijlder

