



February 18, 2009

Fifth Annual Florida International Business Summit

***2009 Latin American Business
Environment:
Coping with the Global Financial Crisis***

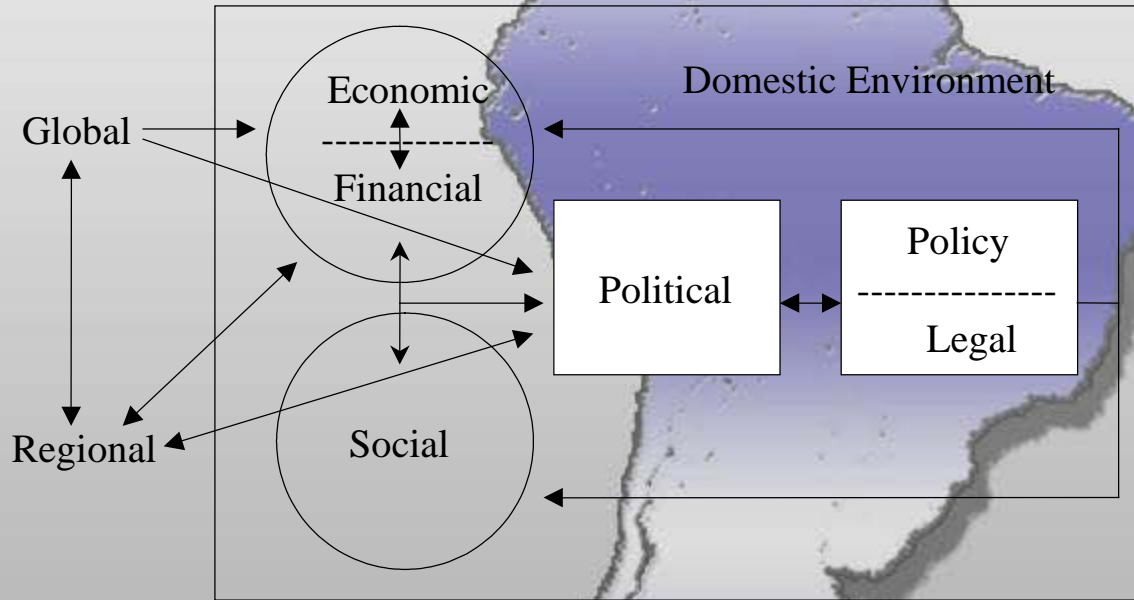
**Terry McCoy
University of Florida
tlmccoy@latam.ufl.edu**

2008 Latin American Business Environment Report

[http://www.latam.ufl.edu/labe/
publications.stm](http://www.latam.ufl.edu/labe/publications.stm)



Latin American Business Environment: Conceptual Framework



Latin American Business Environment: “Before the Fall”

Regional business environment was strong

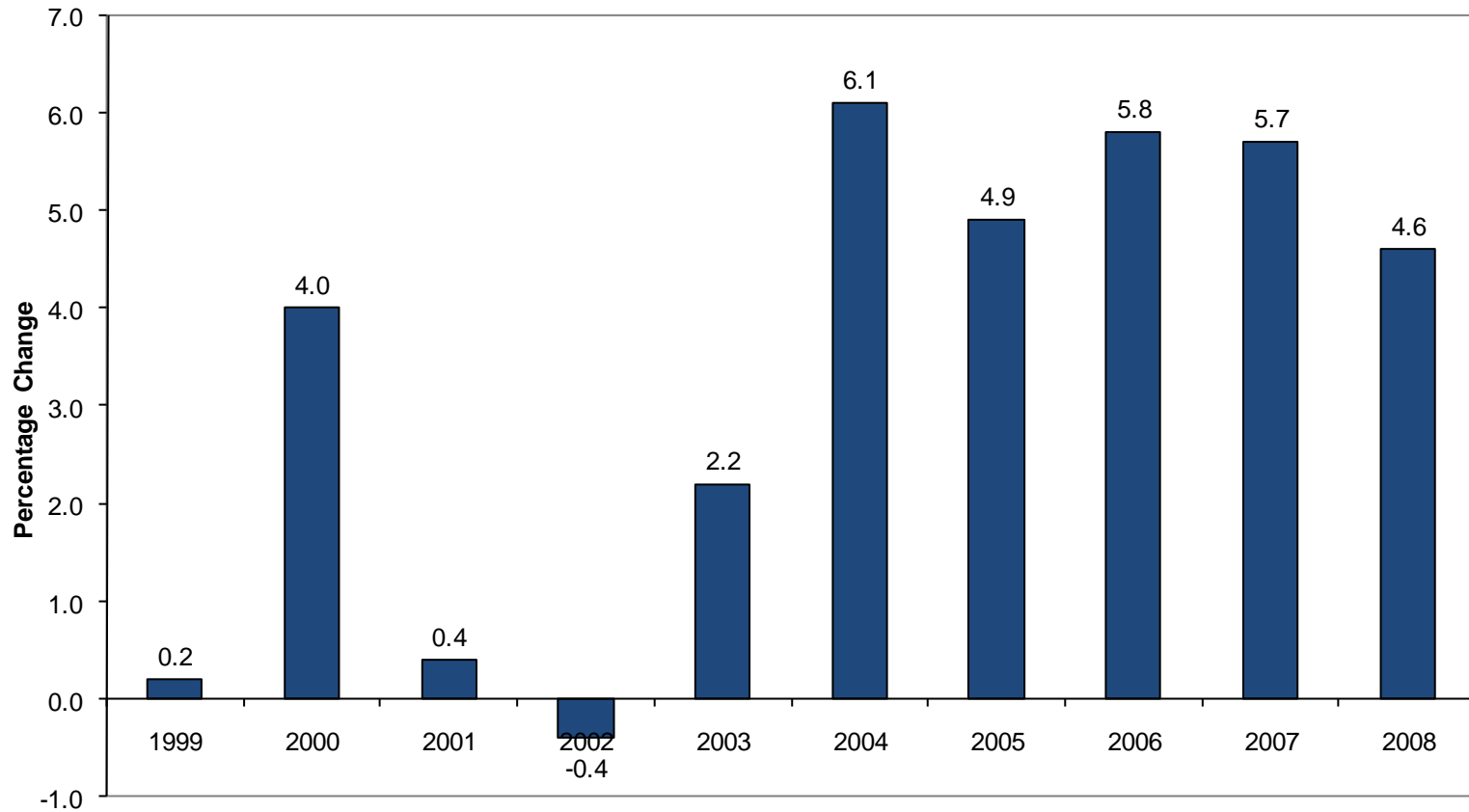
- Economies growing – 6th consecutive year of growth
- Inflation under control
- External performance strong
- Orthodox consistent macroeconomic policies
- Social environment improving and political environment stable

How long would it last?

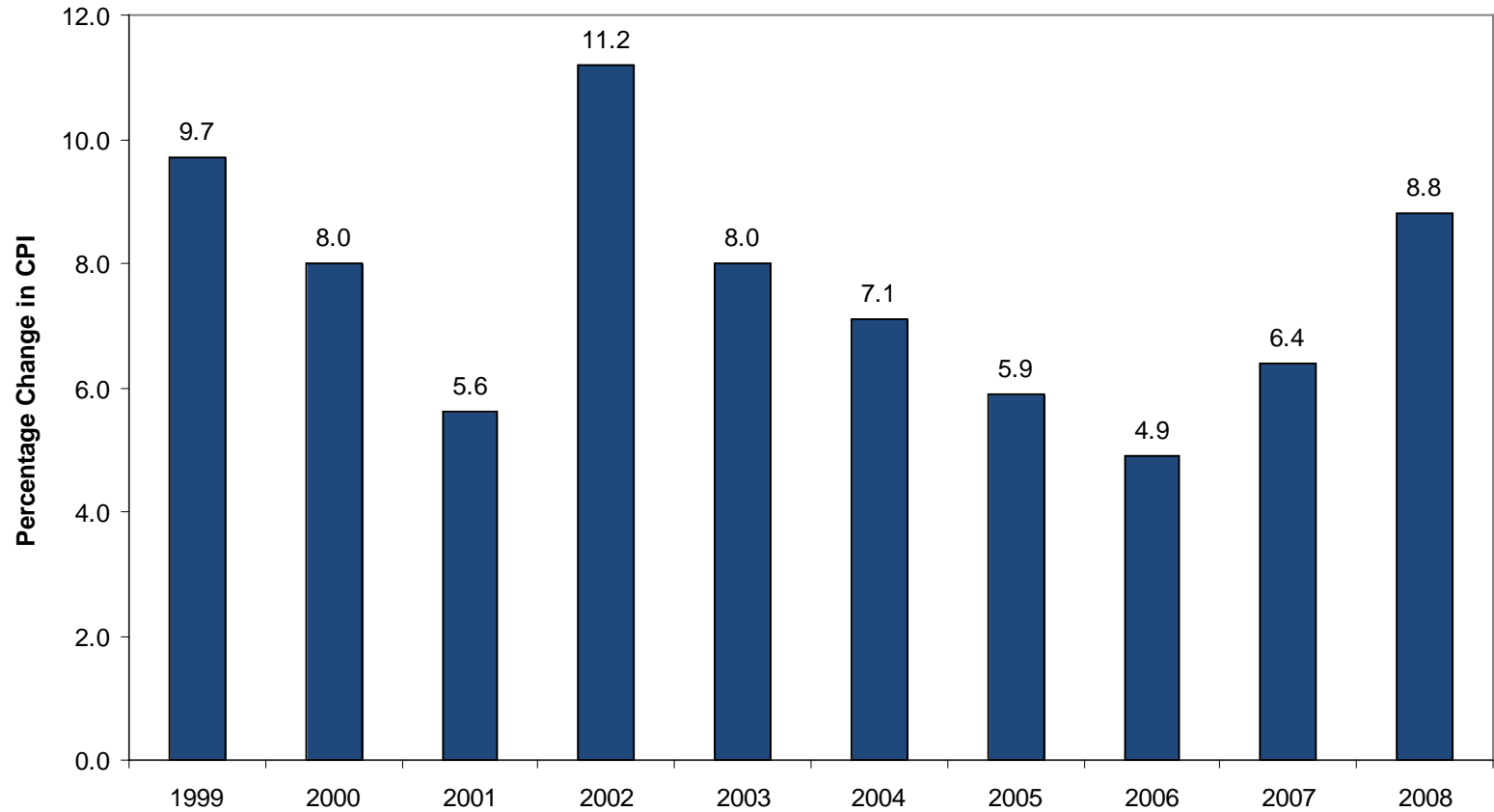
- History of stop-go cycles
- Global environment was deteriorating
- Significant country-to-country variations



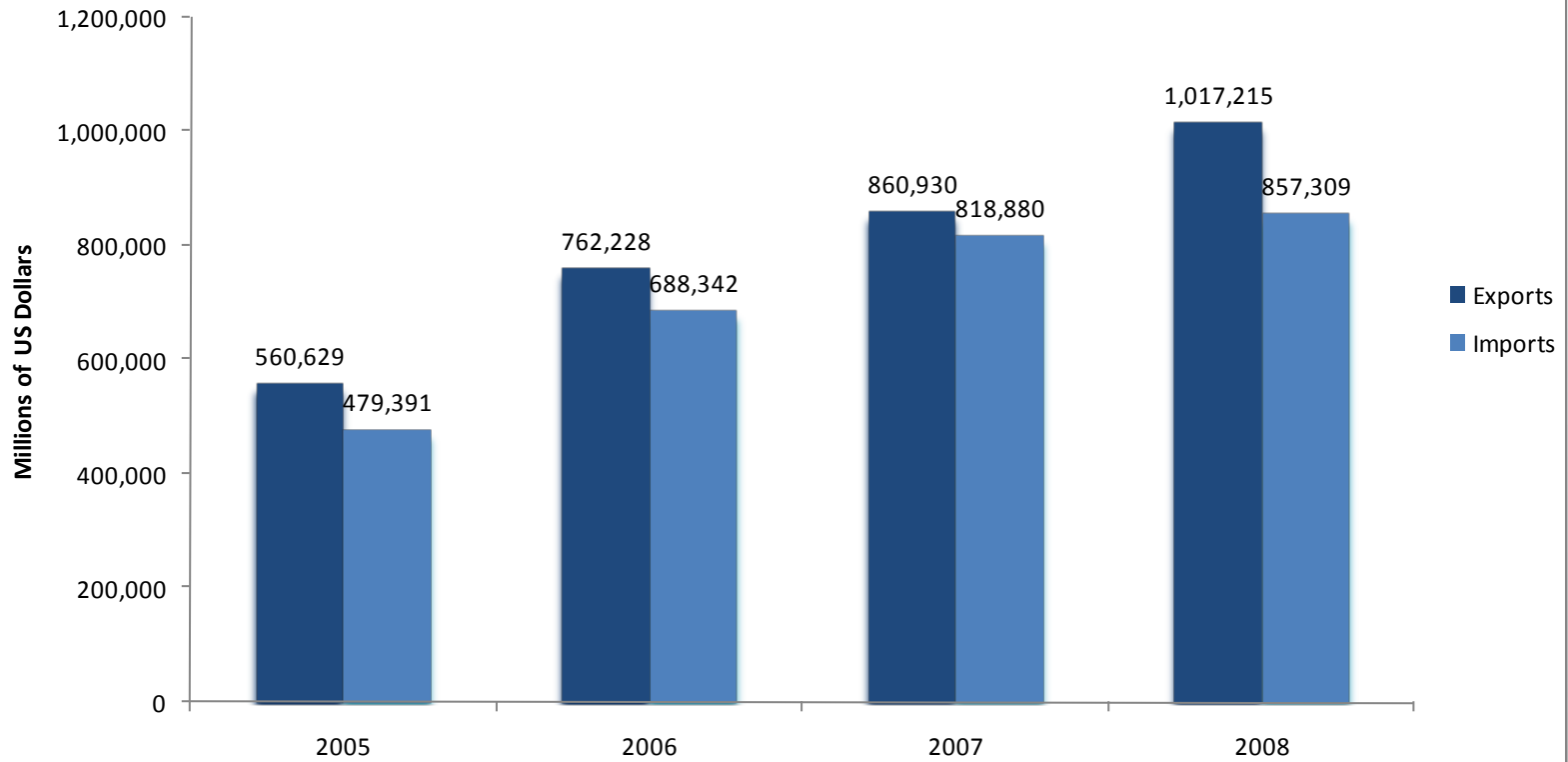
GDP Growth for Latin America, 1999-2008
(Source: ECLAC 2008)



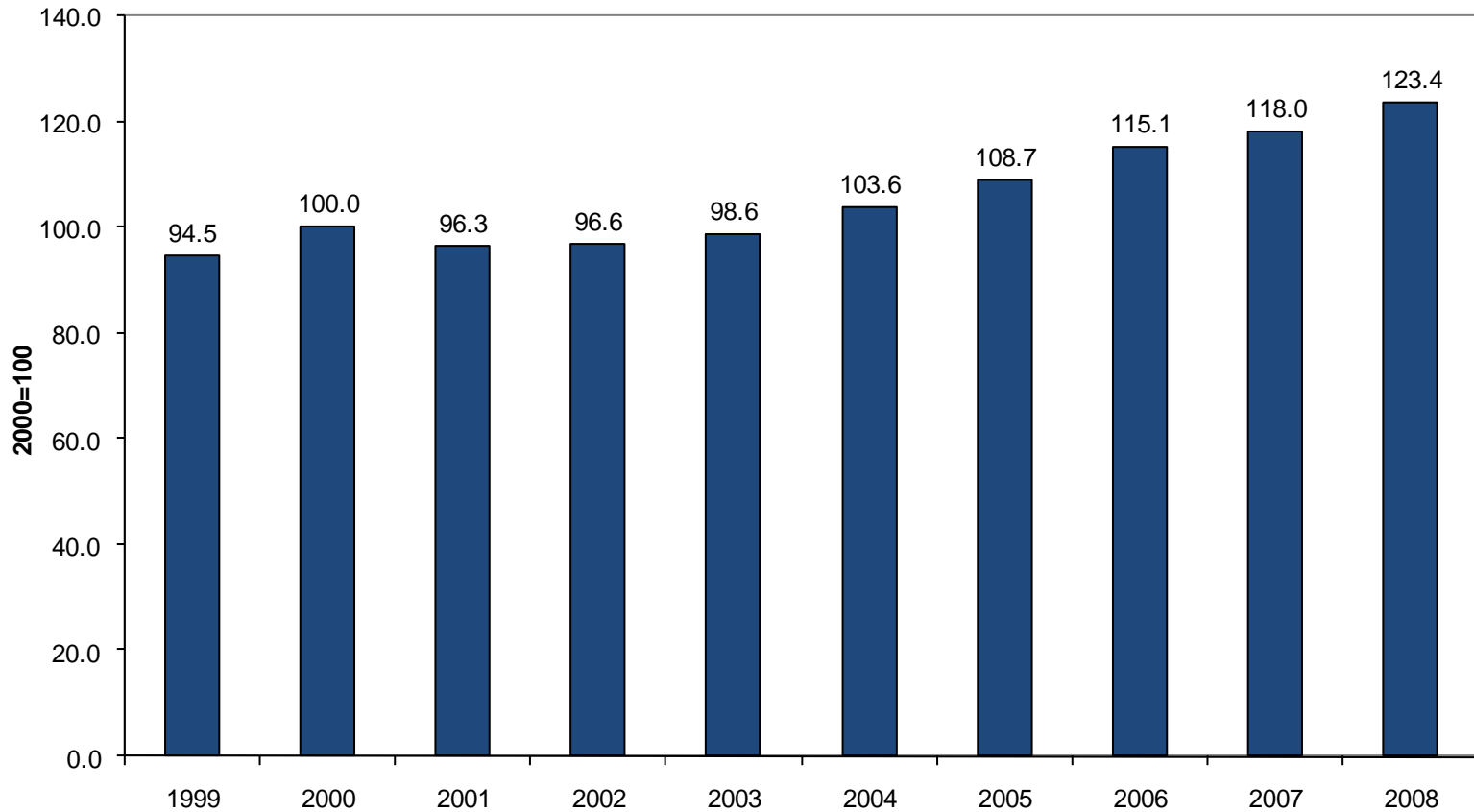
Average Annual Inflation Rate for Latin America, 1999-2008
(Sources: ECLAC 2008)



Exports and Imports of Goods and Services in Latin America, 2005-2008
(Source: ECLAC 2008)

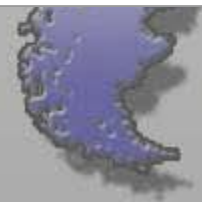
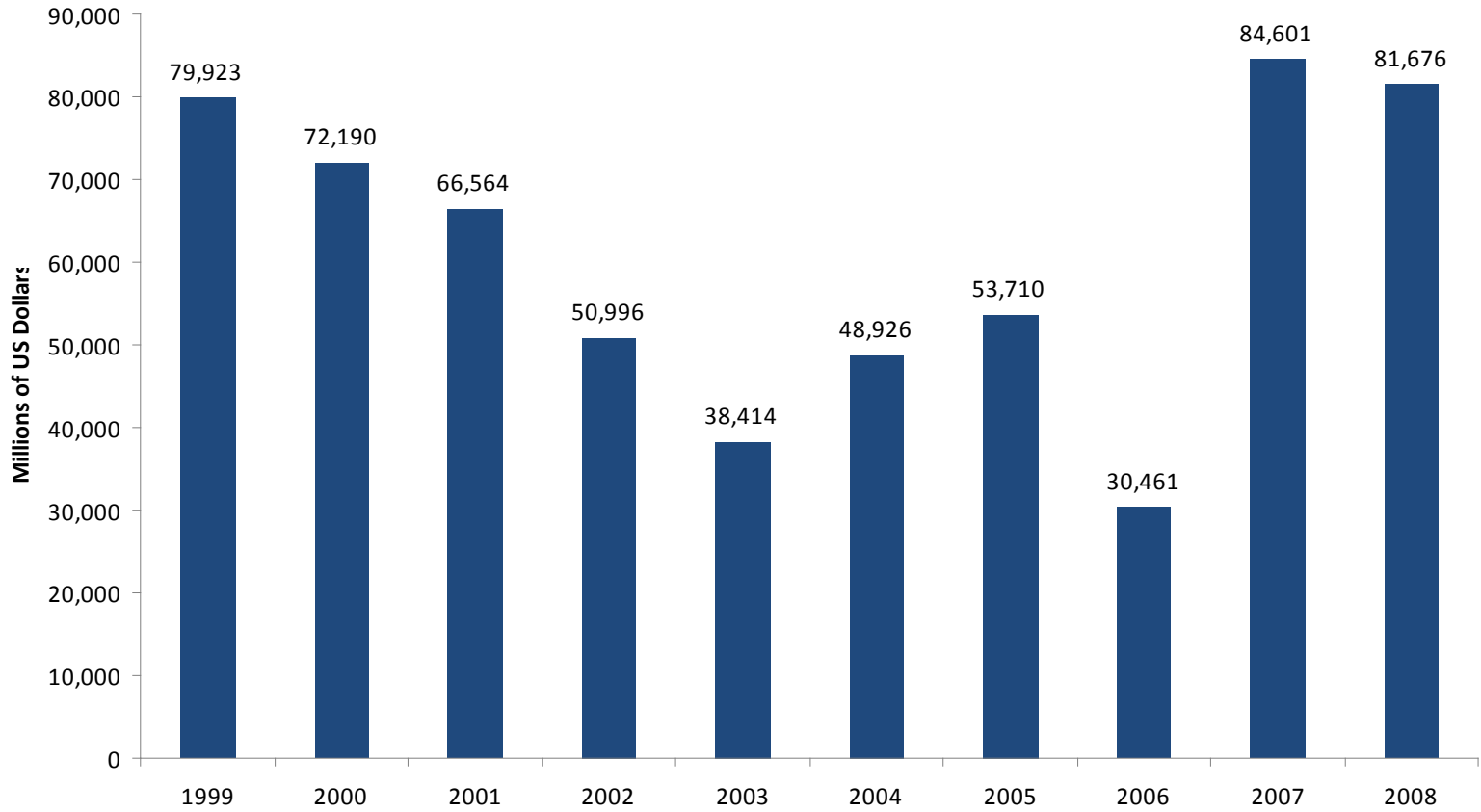


Terms of Trade for Latin America, 1999-2008
(Source: ECLAC 2008)



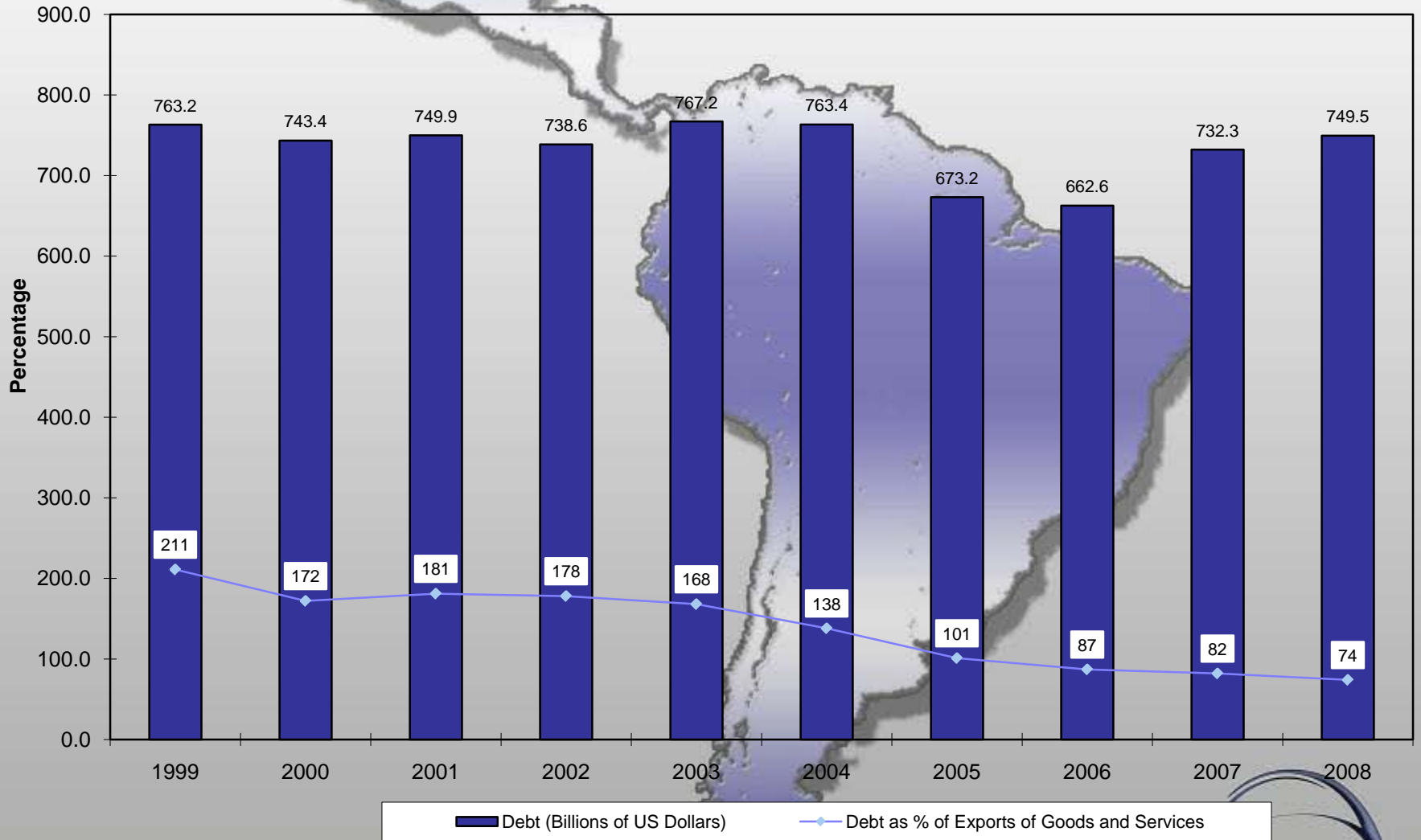


Net Foreign Direct Investment in Latin America, 1999-2008
(Source: ECLAC 2008)

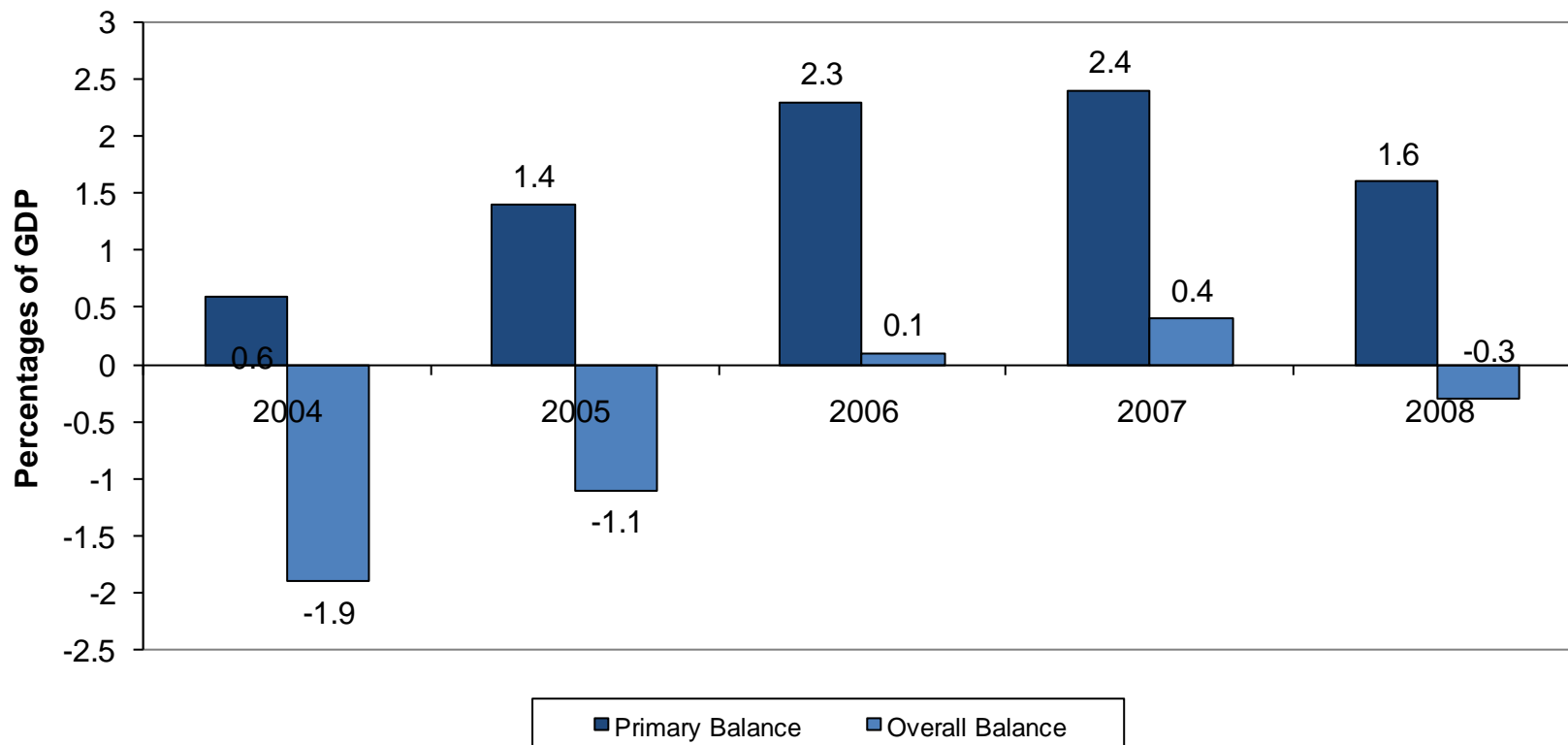


Gross Disbursed External Debt, 1999-2008

(Source: ECLAC 2008)



Central Government Balance for Latin America 2004-2008
(Source: ECLAC 2008)





Policy Environment

Orthodox Macroeconomic Policies Prevailed

- Inflation-targeting
- Fiscal discipline
- Floating exchange rates

Bolivarian left rejected “neo-liberalism” in favor of populist policies

- Price controls, fixed exchange rates, higher inflation
- End of privatization/re-nationalization
- Re-imposition of state into economy



Other Components of Pre-Crisis Environment

Social Environment

- Poverty and unemployment declining (inequality?)
- Incomes and consumption increasing
- Crime and violence ongoing concerns

Political Environment: Shift back to Center

- Leftist-populist Bolivarian challenge (Venezuela, Bolivia) stalled
- Pragmatic left (Brazil, Chile, Uruguay) prevailed

Legal Environment: Uneven Progress

- Slow, uneven progress in strengthening rule of law
- Bilateral investment and free trade treaties

**Strong business environment (but differences among countries)
“before the fall”**



Latin American Outlook in September 2008



Over-arching questions

- Was the growth cycle sustainable? Had the chronic stop-go pattern been broken?

Growing concerns

- Inflation fueled by rising energy and food prices and overheated economies
- Uncertainty in global credit markets
- Economic downturn in US spreading to other mature markets
- Stalled trade agenda

Offsetting developments

- Strong terms of trade fueled by growth of China and emerging markets. “Decoupling” from US
- Solid domestic policy performance reducing external vulnerability

Events of Sept-Oct 2008: A Serious External Shock?

Components of Global Crisis →

- Financial markets meltdown
- Falling commodity prices
- Economic recession
- Bailouts to stem crisis

Impact on Latin America

- Scarcity and cost of capital
- Falling export earnings
- Slower growth ↓

Short-term Effects

- Collapse in equity markets
- Increase country risk spreads
- Sharp currency devaluation
- GDP growth forecasts lower ↓

Longer-term Scenarios

- Mild downturn & quick recovery
- Another “lost half decade”
- Major downturn seemed remote



Subsequent Developments: External Shock Hit Latin America

Global

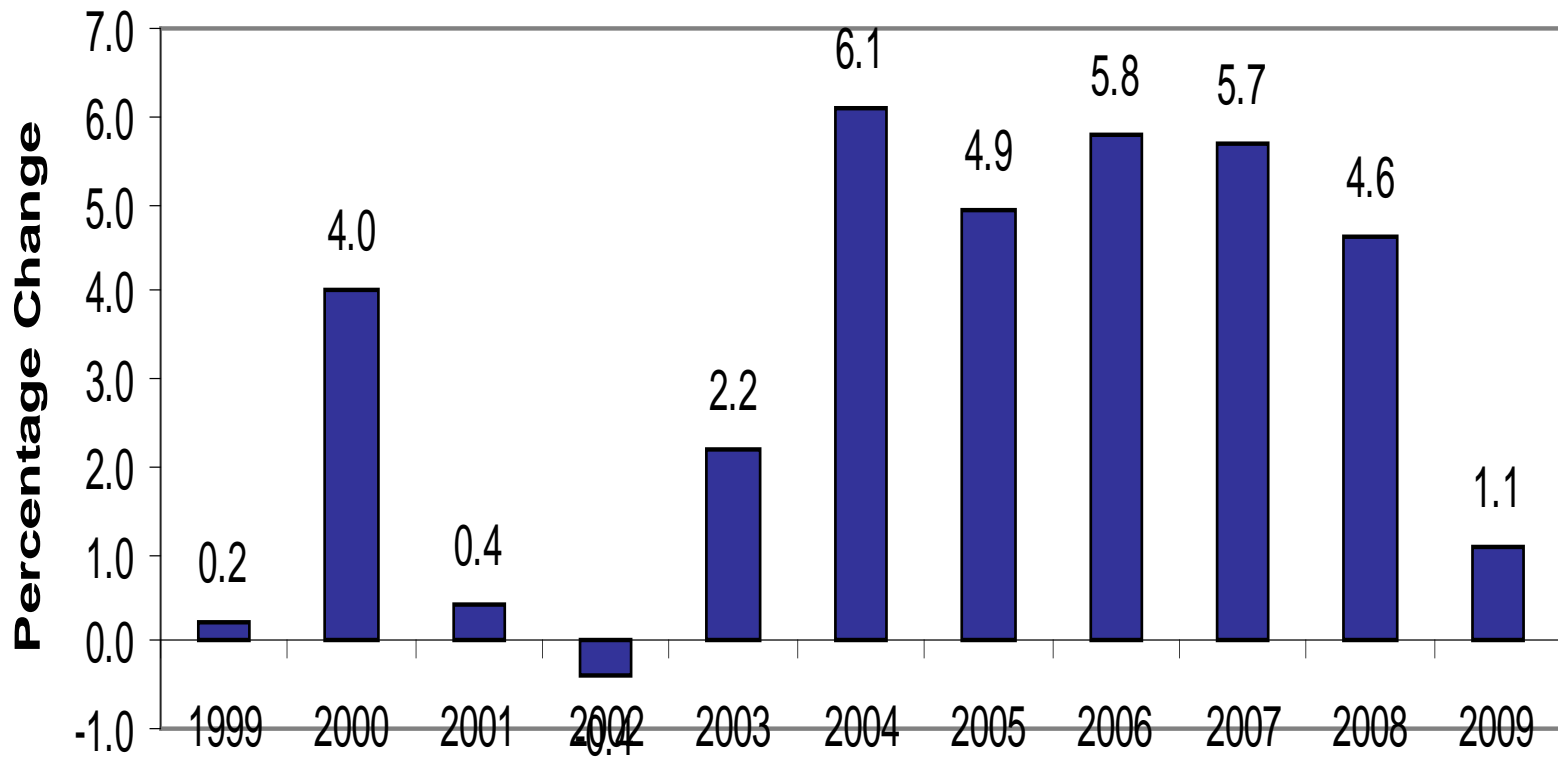
- Credit markets remained frozen
- Commodity prices did not recover
- Economic slowdown spread to emerging markets threatening a global recession
- Governments began adopting countercyclical monetary (lower interest rates) and fiscal (stimulus) policies

Latin America

- Continued deterioration of financial markets and currency devaluation
- GDP growth revised downward
- Ecuadorian default
- Argentine nationalization of private pensions
- Countercyclical policy responses

GDP Growth for Latin America, 1999-2009

(Source: ECLAC 2008, IMF 2009)





Outlook for the Region: Prospects for Recovery

Needed from Global Environment

- Renewed capital flows
- Commodity price recovery
- Economic growth

Where are we today?

- Currencies have stabilized
- Some stock markets are up YTD
- Commodity prices (may) have bottomed out
- But credit markets remain frozen

Bottom Line

- All economies affected by the crisis
- But likely to fare better than others and recover sooner



Country Outlooks; Impact vs. Countercyclical Capability

(1=weak, 2=moderate, 3=strong)

Attractive Environments (8)

- Mexico 3-3
- Costa Rica 2-2
- Panama* 2-2
- Dom Rep 3-1
- Peru 2-2
- Chile* 2-3
- Uruguay* 2-2
- Brazil 2-3

Mixed Environments (6)

- El Salvador* 3-1
- Guatemala 3-1
- Honduras* 3-1
- Colombia 3-2
- Argentina 3-1
- Paraguay 2-2

Problematic Environments (4)

- Nicaragua 2-1
- Venezuela 3-2
- Bolivia 2-1
- Ecuador 3-1

*Presidential elections in 2009

Another Paradigm Shift?

Export-led Growth

Transition

Inward-looking Development

Dates

