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

Terry McCoy

Director, Latin American Business Environment Program

University of Florida

tlmccoy@latam.ufl.edu



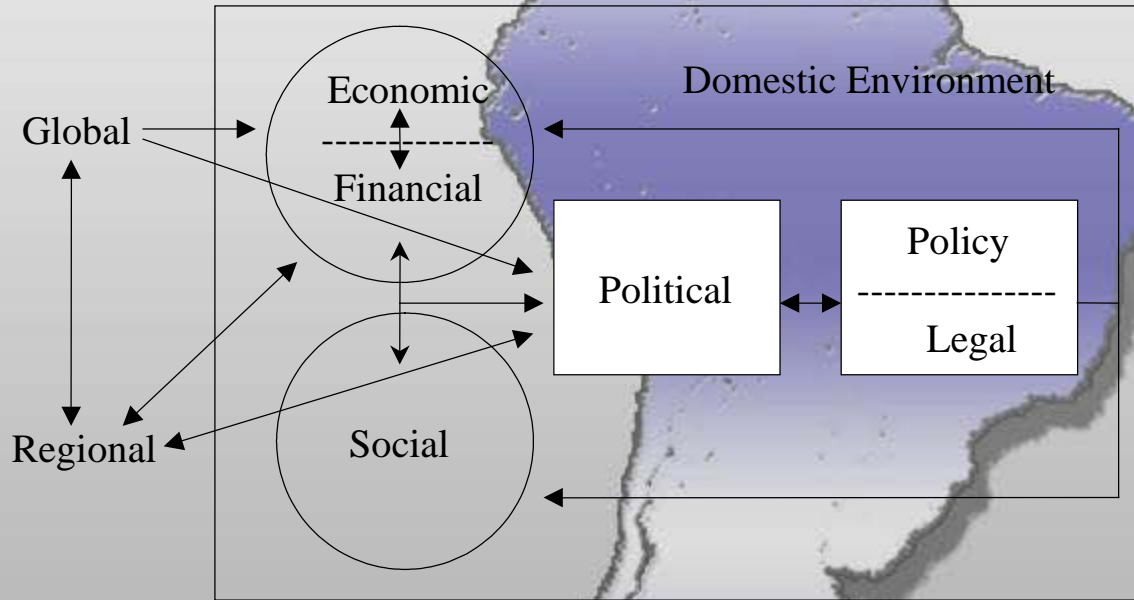
Latin American Business
Environment Program
Center for Latin American Studies

Latin American Business Environment Report

[http://www.latam.ufl.edu/labe/
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Latin American Business Environment: Conceptual Framework



Latin American Business Environment: “Before the Fall”

Regional environment was strong

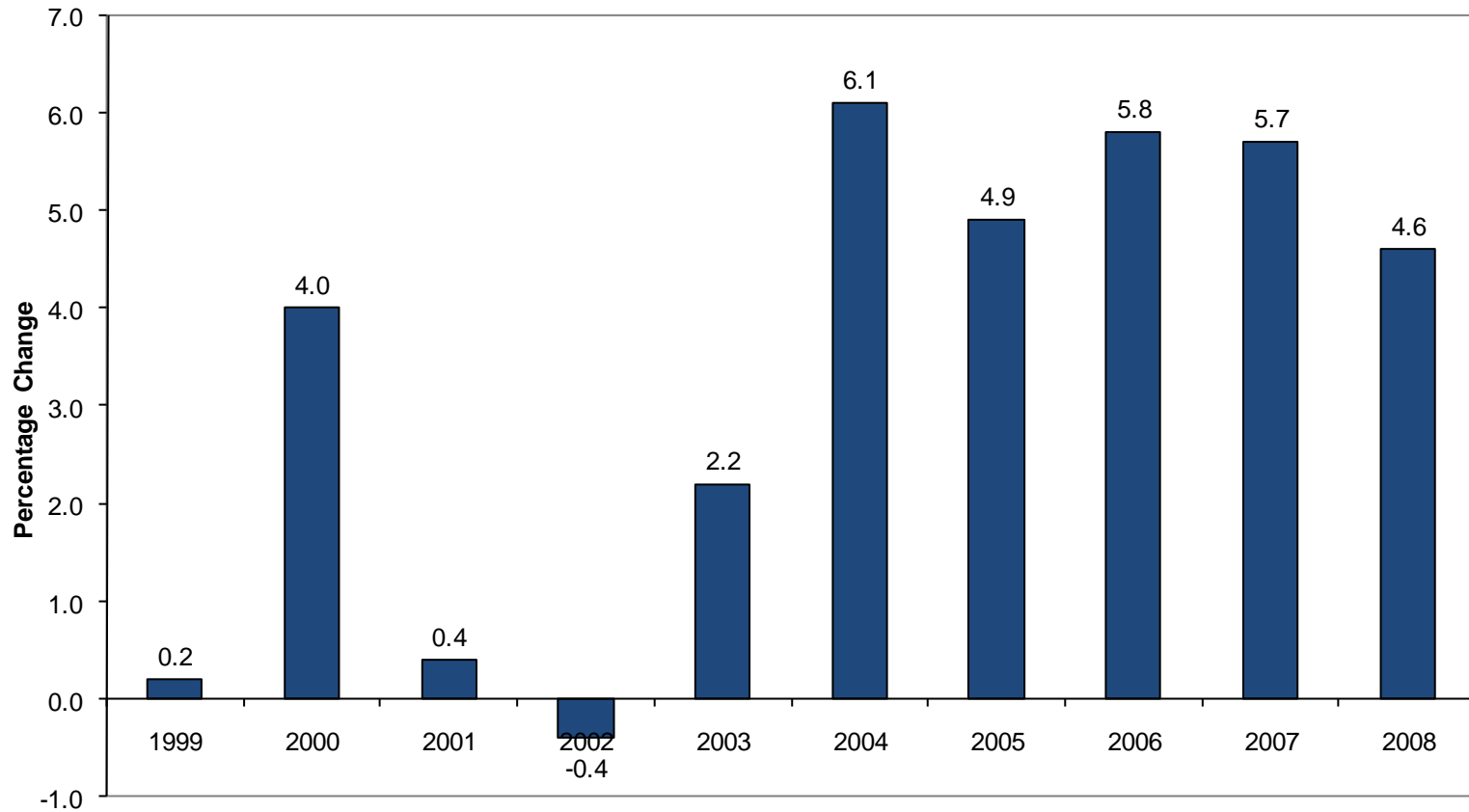
- Robust growth
- Inflation under control
- External performance strong
- Orthodox consistent macroeconomic policies
- Social environment improving and political environment stable

How long would it last?

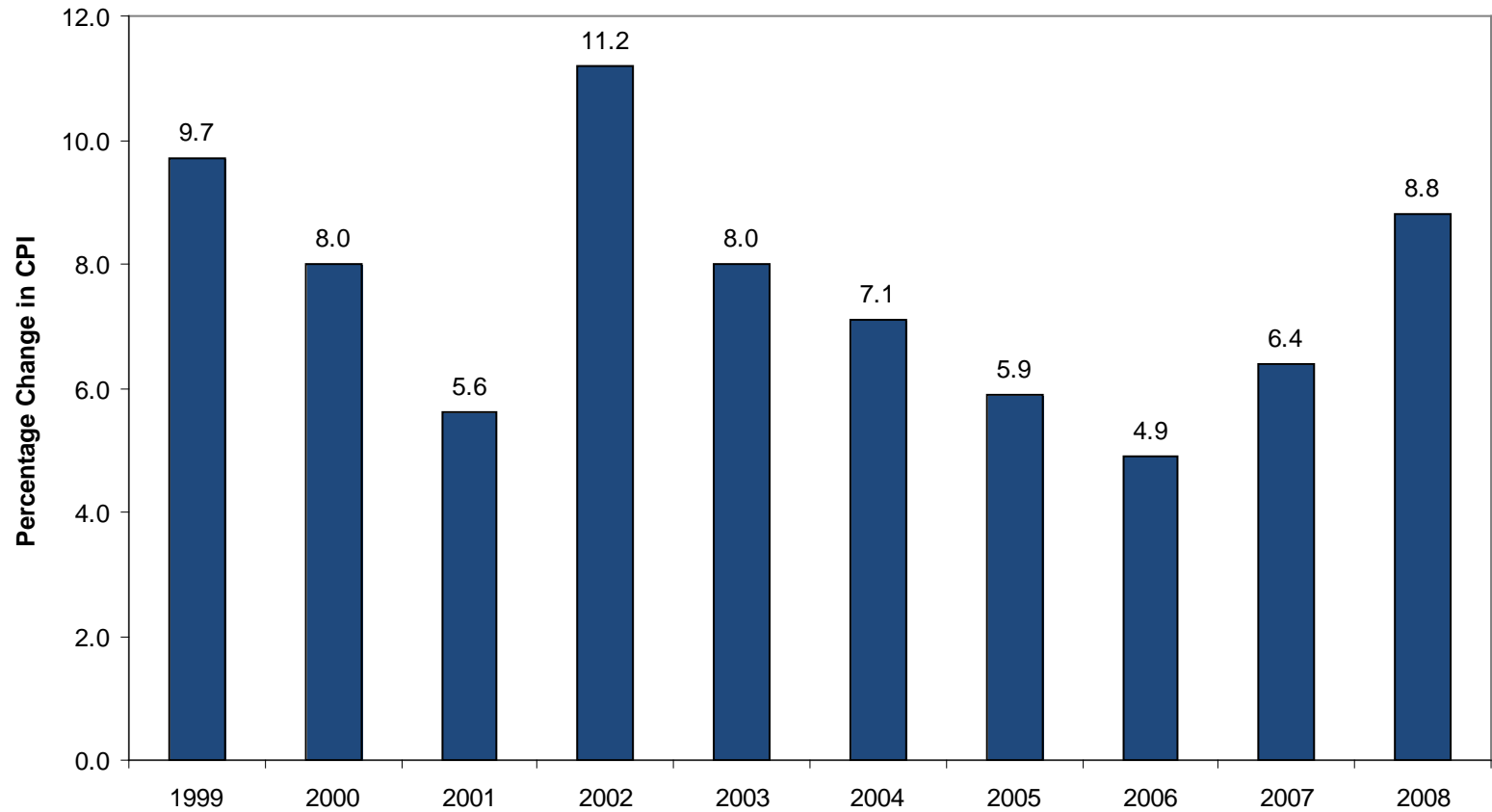
- History of stop-go cycles
- Global environment was deteriorating but LA seemed “decoupled”
- Significant country-to-country variations



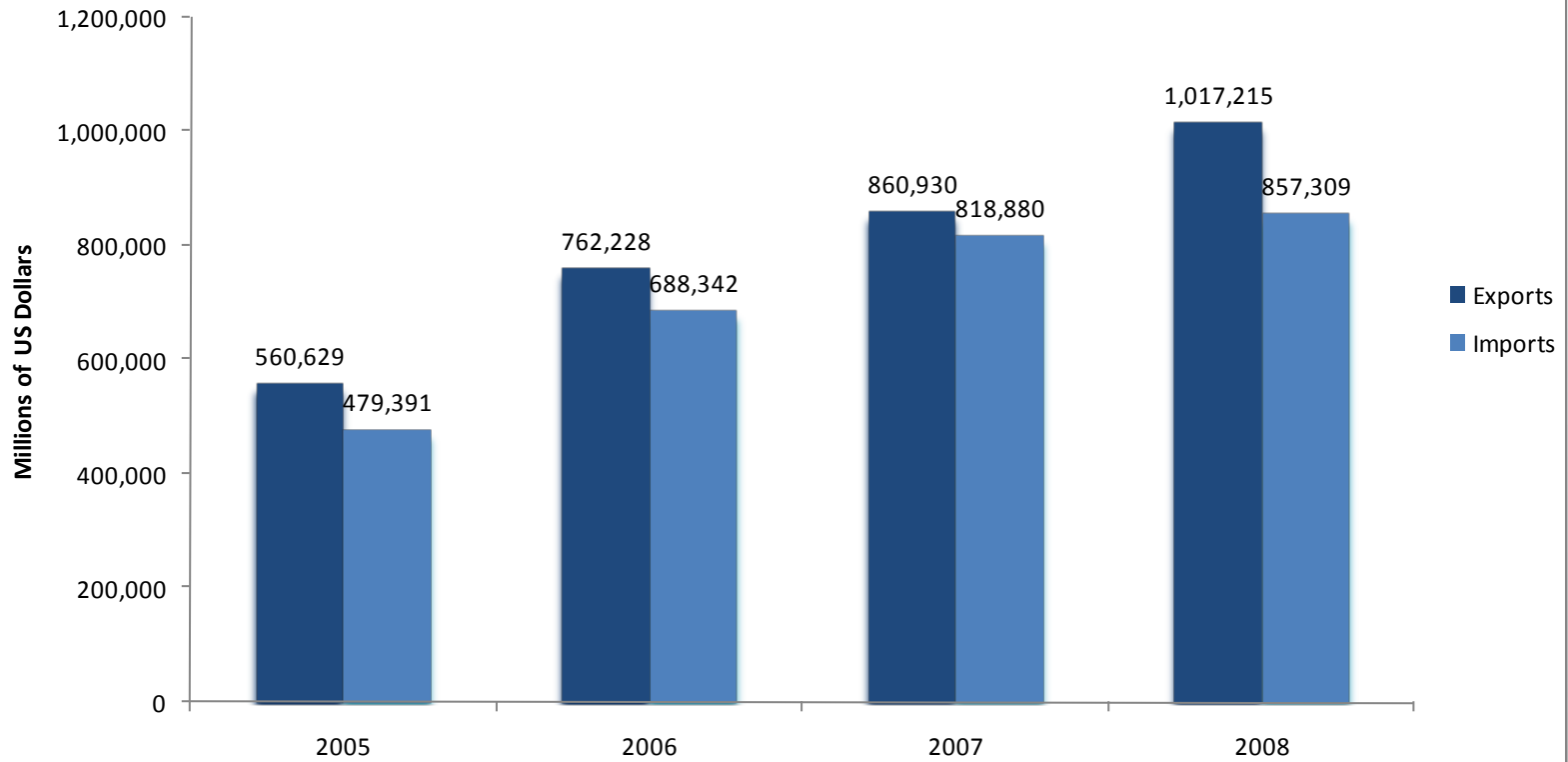
GDP Growth for Latin America, 1999-2008
(Source: ECLAC 2008)



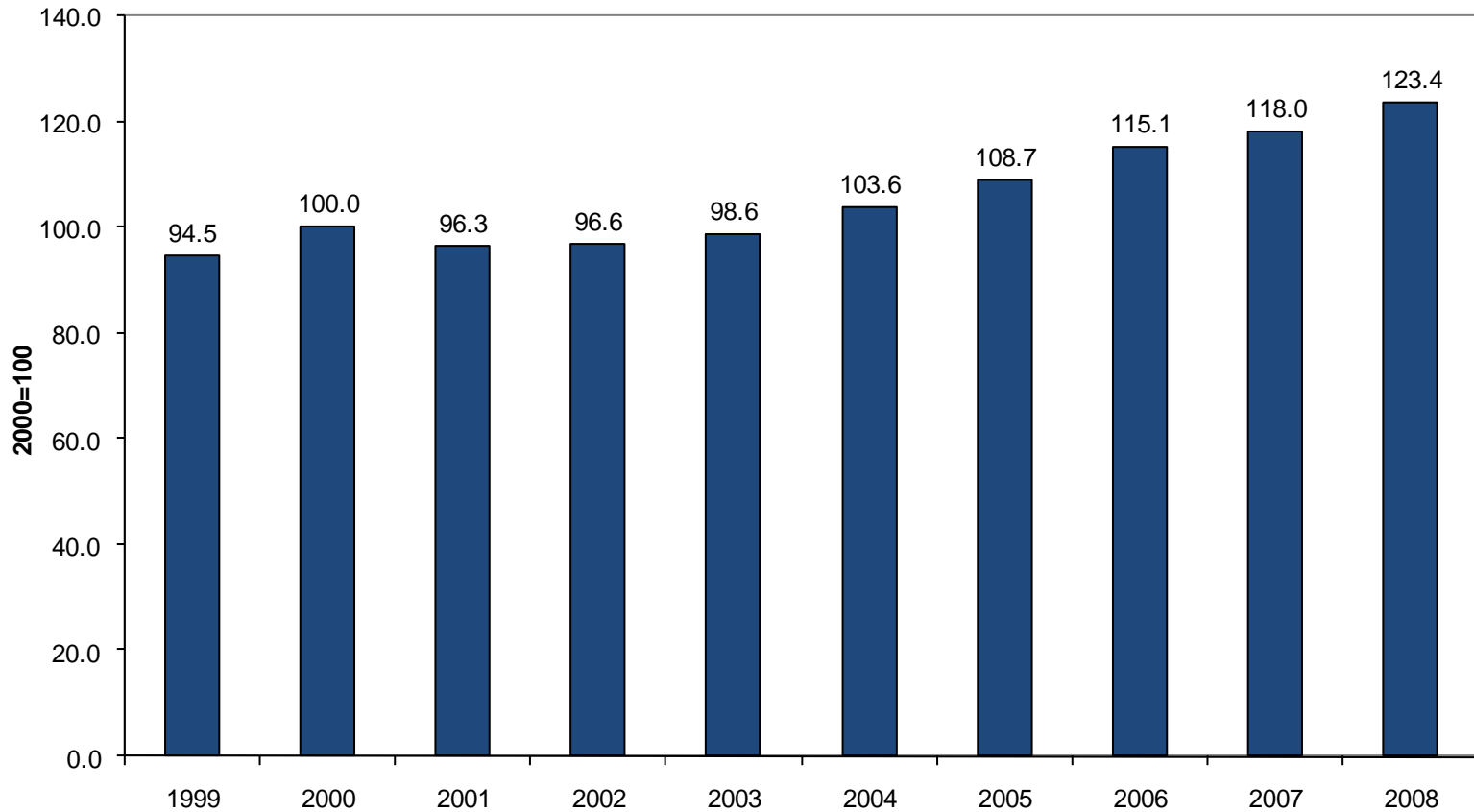
Average Annual Inflation Rate for Latin America, 1999-2008
(Sources: ECLAC 2008)



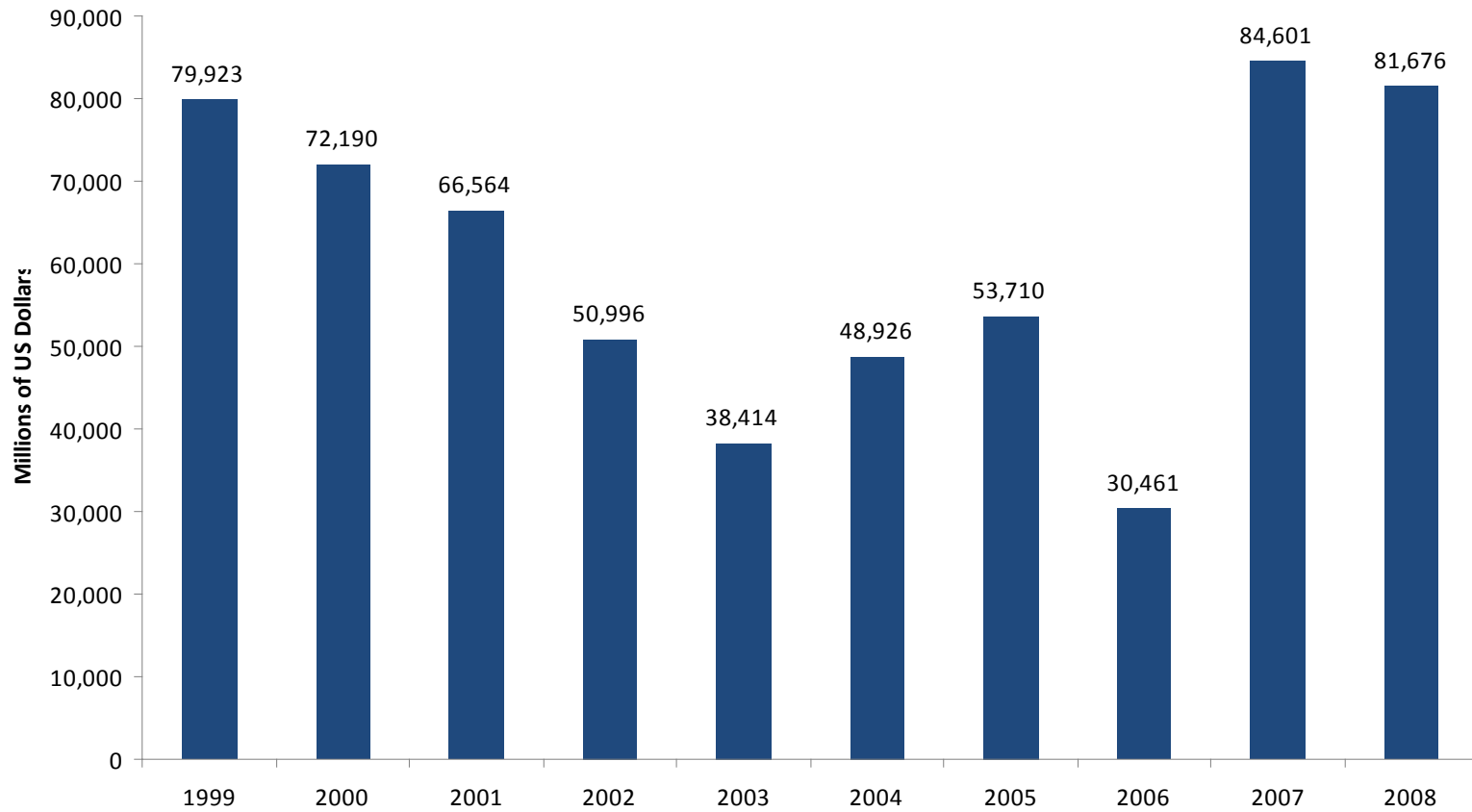
Exports and Imports of Goods and Services in Latin America, 2005-2008 (Source: ECLAC 2008)



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

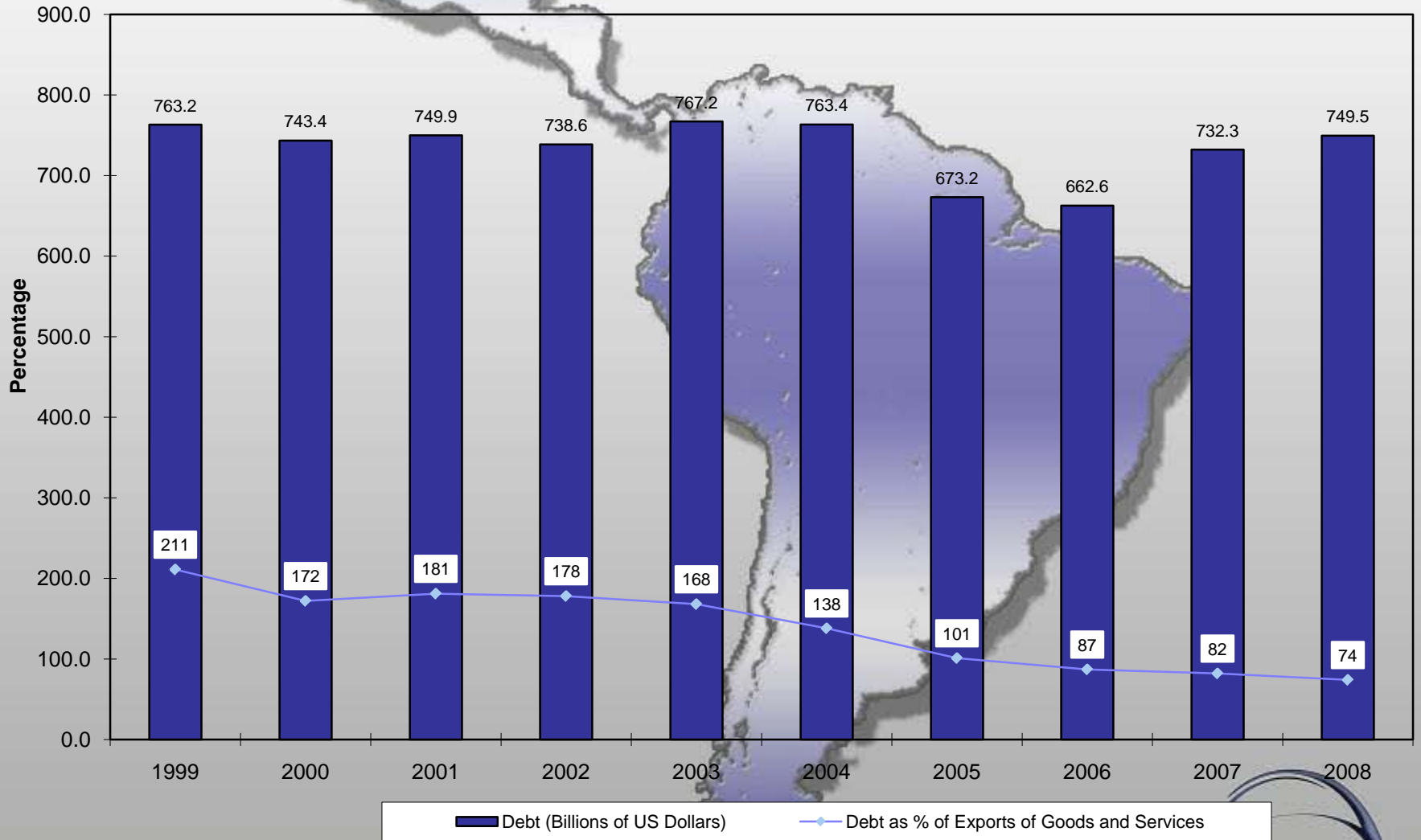


Net Foreign Direct Investment in Latin America, 1999-2008 (Source: ECLAC 2008)

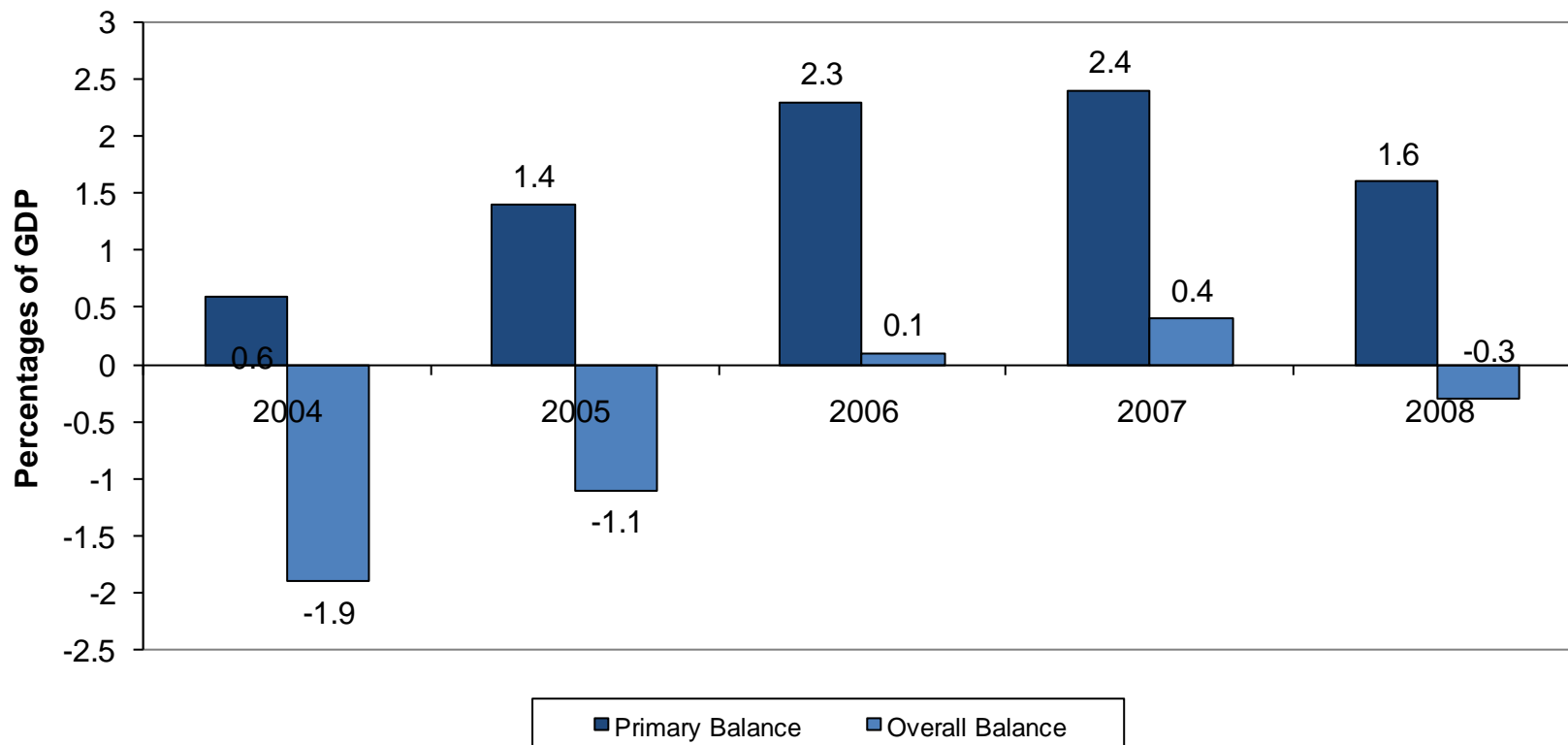


Gross Disbursed External Debt, 1999-2008

(Source: ECLAC 2008)



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





Policy Environment

Macroeconomic Orthodoxy

- Inflation-targeting with interest rates
- Fiscal discipline with primary surplus
- Floating exchange rates
- Regulatory states

Populist Exceptions (Venezuela, Bolivia, Ecuador, Argentina)

- Price controls, fixed exchange rates, higher inflation
- End of privatization/re-nationalization
- Interventionist states

Other Strengths of Pre-Crisis Environment

Social Environment

- Poverty, unemployment and inequality declining
- Incomes and consumption increasing

Political Environment: Shift back to Center

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

Legal Environment

- Slow strengthening rule of law
- Bilateral investment and free trade treaties required reform

Strong business environment “before the fall”

- But even in positive context political challenges rose to prevailing economic paradigm



Country Environments



Attractive (8)

- Mexico
- Costa Rica
- Panama
- Dominican Republic
- Peru
- Chile
- Uruguay
- Brazil

Mixed (6)

- Guatemala
- El Salvador
- Honduras
- Nicaragua
- Colombia
- Argentina
- Paraguay

Problematic (4)

- Nicaragua
- Venezuela
- Ecuador
- Bolivia

Events of Sept-Oct 2008: Global Financial Crisis

Components of Global Crisis →

- Financial markets meltdown
- Falling commodity prices
- Economic slowdown in developed economies
- Bailouts to stem crisis

Impact on Latin America

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

Short-term Effects

- Collapse in equity markets
- Increased country spreads
- Currency devaluation
- GDP growth forecasts lowered ↓

Longer-term Scenarios

- Mild downturn & quick recovery
- Major downturn seemed remote – LA was “decoupled”

Subsequent Developments: Global Economic Crisis

Deepening of Global Crisis

- Frozen credit markets +
- Falling commodity prices +
- Declining trade flows +
- = Onset of global recession
- Governments adopting countercyclical monetary (lower interest rates) and fiscal (stimulus) policies
- Attempts to coordinate global action (G-20)
- Protectionist measures

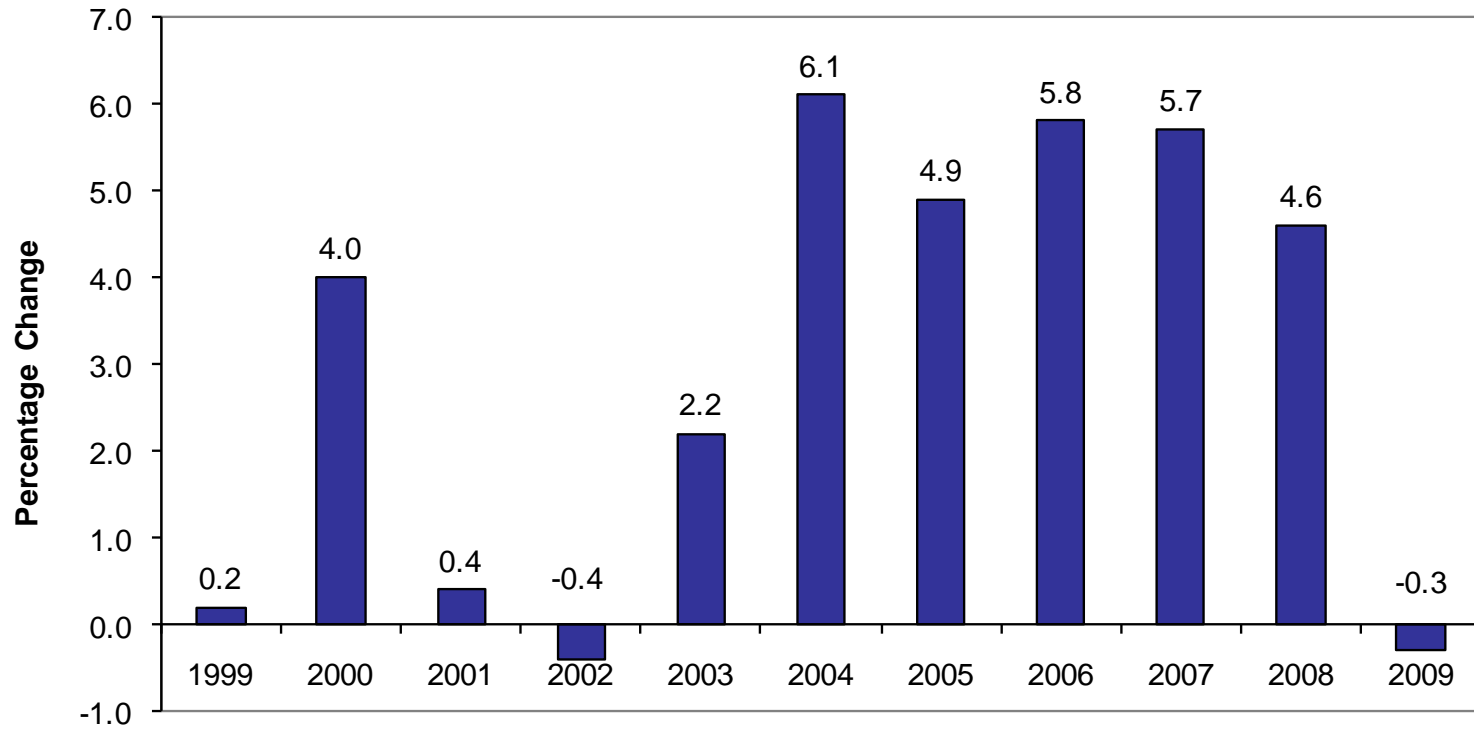


Latin America

- Continued deterioration of financial markets and currency devaluation
- Declining export revenue
- Declining FDI
- Declining remittance flows
- GDP growth drops
- Ecuadorian bond default
- Argentine nationalization of private pensions
- Countercyclical policy responses



GDP Growth for Latin America, 1999-2009 (Source: ECLAC 2008, IMF 2009)



Prospects for Recovery



Needed from External Environment

- Renewed capital flows
- Commodity price and trade recovery
- Resumption of growth of developed economies + Quick Chinese recovery

Where are we today?

- Currencies stabilized
- Stock markets are up YTD
- Commodity prices (may) have bottomed out
- But unemployment and poverty rates increasing
- Variety of countercyclical packages being implemented

Bottom Line – Recovery may begin 2nd half of 2009

- All countries affected by the crisis but some likely to recover sooner
- Prolonged downturn would trigger major realignments



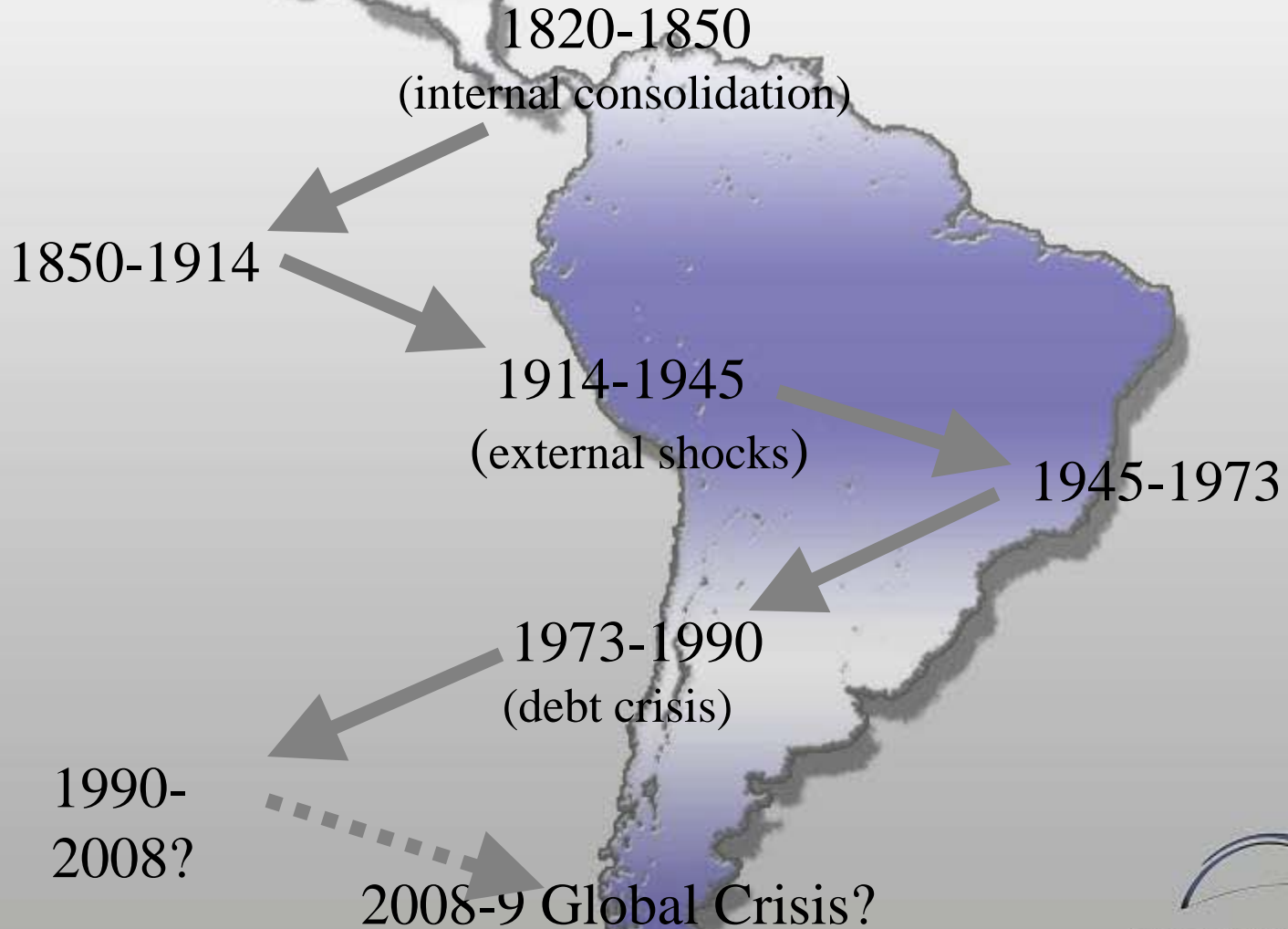
Another Paradigm Shift?

Export-led Growth

Transition

Inward-looking Development

Dates



Country Outlooks; Impact vs. Countercyclical Capabilities

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

Attractive Environments

- Mexico 3/3 = 0
- Costa Rica 3/2 = -1
- Panama* 1/2 = 1
- Dom Rep 2/1 = -1
- Peru 1/2 = 1
- Chile* 3/3 = 0
- Uruguay* 1/2 = 1
- Brazil 3/3 = 0

Mixed Environments

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

Problematic Environments

- Nicaragua 3/1 = -2
- Venezuela 3/2 = -1
- Bolivia* 1/1 = 0
- Ecuador* 3/1 = -2

*Presidential elections in 2009

