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Four Years of Growth in Latin America

by LADB Staff
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Latin American economies will have undergone four consecutive years of growth by the end of 2006, the second time in a quarter-century that has occurred, reports the Economic Commission on Latin America and the Caribbean (ECLAC). The UN-based commission headquartered in Santiago, Chile, credits this period of expansion to high prices for export products, low interest rates in the US, and an abundance of liquidity on international investment markets. ECLAC anticipates that Latin America and the Caribbean will see around 5% growth by the end of the year, though analysts fear the growth will not cut deeply into perennially high poverty rates.

ECLAC: 17.6% GDP increase in four years

ECLAC states that this is the second time in 25 years that the region will see four consecutive years of growth, with the regional GDP posting a cumulative rise of 17.6% an average annual increase of 4.3% and per capita GDP registering a 12% increase. The body says there has been substantial improvement during the last quarter-century, but the region continues to show less dynamism than the rest of the developing world (see NotiSur, 2006-05-19). ECLAC projects that regional GDP growth will be about 4.5% in 2007, within the context of a moderate slowdown of the world economy. This economic expansion will be spread across Latin America and the Caribbean, ranging between 3.5% and 6.5% for most countries.

The exceptions are Argentina, the Dominican Republic, and Venezuela, with growth rates over 7.5%, and Haiti, at about 2.5%. The Caribbean nations are expected to grow by 6.3%; South America by 5.4%; and Mexico and Central America by some 4.1%. The commission announced these figures at the July 25 release of its Economic Survey of Latin America and the Caribbean, 2005-2006. The quick growth of Asian economies, along with high US consumption levels, have helped revive the export manufacturing industry in Mexico and other Central American countries.

The Chinese steel industry has gobbled up Brazilian iron, while Chinese electric-plant construction has led to increased copper prices in Peru and Chile (see NotiSur, 2005-11-11 and 2006-02-24). Meat consumption among China's large population has significantly increased Argentine cattle sales. Exposure to Chinese competition in areas like textile manufacturing, however, set back economies in Mexico and Central American and in Caribbean countries, meaning South American nations generally performed more strongly.

Venezuela has undergone a petroleum bonanza, fueling a generous fiscal policy where public spending has grown to the extent that it has provided substantial stimulus to the economy.

In Argentina, the Economy Ministry reported in August that export prospects continue to be favorable, with the automotive industry, rubber industry, and various mechanical-production outfits seeing the most expansion. "This tendency is expected to continue in 2007 because of increases in

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the iron, steel, and aluminum industry and others," said a ministry report, though it did say the rate of imports was decelerating because of lower consumption levels.

ECLAC tempered its enthusiasm for the recent economic developments in the region, saying that Latin American economies needed to diversify more into areas like "knowledge-based patterns of specialization," or tech industries, and lessen dependence on sales of raw materials, which can be more vulnerable to shocks from global price changes.

"It is a very encouraging scenario that also reflects a more favorable external outlook," said Alberto Ramos, chief economist for Latin America at New York investment firm Goldman Sachs. "The implementation of better fiscal, monetary, and exchange policies have brought with them certain macrofinancial stability." Nonetheless, Ramos said an even higher rate of growth would be necessary to overcome poverty. "If one compares it with Asia or Europe, the region is lagging behind, reflecting deficient macroeconomic policies that are not able to attract foreign-investment flows," said Ramos.

Foreign direct investment (FDI) in Latin America reversed its decline for the first time in five years in 2004, but it did not have a large-scale impact on poverty levels (see NotiSur, 2005-04-01). While economic growth is continuing on an upward trajectory, the aspirations of average Latin Americans have remained excluded from the progress, said Larry Birns, director of the Council on Hemispheric Affairs (COHA), a Washington DC analysis center. "The result is that [they] feel poorer than before, although in relative terms that is not the case."

Inter Press Service writer Diego Cevallos says the increase in FDI is good news for transnational corporations, which have seen a corresponding increase in profits, but not necessarily for the 224 million who live in poverty and the 96 million who suffer extreme poverty in Latin America and the Caribbean, people "who are unlikely to benefit in any way from these new resources flowing into the region." He says much of the FDI goes to corporations.

Latin American countries generally see surpluses

ECLAC says the region continues to show a current accounts surplus, although the surplus differs sharply among countries. The commission made particular note of negative impacts on current accounts in Central America and most Caribbean nations from higher oil prices (see NotiCen, 2005-06-16, 2005-11-10, 2006-03-30 and 2006-06-08). Accompanying this trend in current accounts, ECLAC reports an upturn in public sector accounts, which makes these economies less vulnerable to possible external shocks, a development ECLAC viewed as having "great relevance."

Current account surpluses were positive for the region as a whole in 2005 the third year in a row this has happened, which is "without historical precedent," said Jose Luis Machinea, executive secretary of ECLAC. However, the strength of currencies such as the Brazilian real, which has gained more than 20% against the dollar this year, was a "cause for concern." Machinea said the speed of currency appreciation was particularly worrying, especially in countries such as Brazil and Chile. He suggested that central banks might be putting too much emphasis on curbing inflation

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and not enough on maintaining competitive exchange rates. "You have to get the balance right," he said.

Brazil's export industries have suffered as the real has gained strength, with industrial sales falling 3.8% in June compared with sales from the same month last year, according to the Confederacao Nacional da Industria (CNI). In contrast to previous cycles of growth, governments have avoided expansionary fiscal policies, opting to build up primary surpluses and pay down debt (see NotiSur, 2005-03-11, 2006-01-13 and 2006-04-21). The current phase is noteworthy for the decreasing dependence of regional countries on external saving and the greater speed with which they are reducing their debt, ECLAC states.

The annual ECLAC survey said steady expansion of the world economy and abundant liquidity on international capital markets have helped bring about increased exports and better terms of trade for South America, Mexico, and Trinidad and Tobago. The remaining Caribbean countries and Central America saw their terms of trade decline, but they did benefit from remittances sent by emigrant workers, as did Mexico. Factors of uncertainty in the world economy could dampen global growth, says ECLAC, pointing to greater volatility of markets that are facing fears like increased inflation, escalating warfare in the Middle East, and rising oil prices. Nonetheless, the economic performance and macroeconomic policies seen in Latin America and the Caribbean in recent years provide for a "safety margin" in the event of changes in external conditions, provided these are moderate, ECLAC states.

Employment rate at 53.6%

Economic growth has had a favorable impact on labor markets and the employment rate, said ECLAC. The 2005 rise of 0.5 points took the rate up to 53.6% of the working-age population. While this is still below its 1997 level, commissioners argued that it was positive that there was an expansion in employment in the formal sector. The unemployment rate fell to 9.1% at the end of 2005 and remained under 9% during the first semester of 2006. While the rate is at its lowest since the mid-1990s, 18 million people in the region are jobless.

Calls for increased investment

ECLAC said in July that it believes that defining the region's style of growth during the coming years can open the way for productive policies, repeating a similar statement it made in December 2005. At the same time, it said it is necessary to increase the investment rate that, despite a significant recovery, remains insufficient to guarantee the sustained growth that Latin America and the Caribbean require to alleviate the region's social needs. Latin America must increase the amount of money it invests to grow faster and make greater inroads into stubbornly high levels of unemployment, argued the commission.

Average investment rates of about 22% of GDP are still lower than in 1998, when the region entered a severe financial crisis, and the region is still growing at a slower rate than the 2005 average of 5.7% for developing countries. "There is some good news but it is still not sufficient," said Machinea.

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"Tight fiscal pressures mean that countries have had little room to increase public investment, although this is beginning to change in the south of the region."

Inflation levels

Inflation in Latin America and the Caribbean is expected to reach 6% this year 0.1% less than 2005 according to ECLAC estimates. "In general, a large number of countries are on a path to slightly lower or stable prices, explained in part by the strong results achieved by the application of inflation goals," ECLAC said. The rapid rise of international oil and other fuel prices have not been fully reflected in the prices of transportation and basic services, "given the internal fuel and basic service price regulation," according to ECLAC.

Countries like Argentina practice fuel price regulation, which has created tensions with neighboring countries (see other article in this issue of NotiSur) and some argue it hampers investment in Argentina's energy sector (see NotiSur, 2005-04-15). Despite rising international oil prices, appreciation of almost all national currencies in the region has helped rein in the pace of price increases.

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