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Latin America, Its Emerging Markets and the Global Economy - An Overview

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LATIN AMERICA, ITS EMERGING MARKETS AND THE GLOBAL ECONOMY - AN OVERVIEW

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INTRODUCTION

The global economy continues to roar ahead, enjoying some of the best conditions imaginable. A combination of balanced-economic growth and a high level of international liquidity created the ideal conditions for financial markets. In contrast to previous periods, when GDP growth was concentrated in a few population pockets, all of the major economic zones are enjoying greater levels of prosperity. The result is a broader consumer base, greater resiliency and less vulnerability to shocks. Surprisingly, we are in a period when the developing world is growing at a faster pace than the developed world. More internationals are deriving their earnings and revenue growth in developing countries, fueling greater levels of investment. Trade also continues to expand rapidly- -despite setbacks on the multinational and bilateral fronts. Changes in technologies and techniques are leading to amore productive and efficient global marketplace.

The massive increase in global liquidity is the force behind the economic momentum. It is no longer an issue of the large fiscal and current account deficits generated by the U.S. It is more the development of new financial instruments and derivatives that fueled an explosive growth in the global money supply. For example, the stock market of over-the-counter derivatives exploded four-fold this decade, reaching a total of $453 trillion by the end of 2006. This is what produced the global credit boom. Mortgages and consumer loans are now abundant in Chile, India, Russia and South Africa.

THE CHANGING GLOBAL ECONOMIC SCENE

The realignment of the global order is occurring faster than anyone expected. Times have changed, it is no longer a world dominated by Europe, Japan, and the United States in terms of global business transactions and economic activity. Newer players with equally strong penchant for mega deals and world dominance are entering the global arena. Countries like Brazil, China

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and India are flexing their muscles and demanding to be recognized as world class economies. Brazil's economy is expected to grow more than 5% in 2007. The Brazilian government has relaxed some of its fiscal and monetary policies and at the same time increased its investments in public sector projects. Brazilian and Indian companies recently vied for a U.K. based steel maker.

The Chinese economy is on track for another year of double-digit growth. The Chinese economy grew 10.7% in 2006. China's trade surplus rose steadily, as it moved into higher value-added products. China recently displaced Japan in the number two slot for research and development (R&D) spending. China is clearly becoming a major element of global stability. China is the main source of development capital in Africa, displacing the IMF. (Indeed the multilateral lending agency, one of the vestiges of the old world order, has been left out of a job—and it may be forced to sell some of its assets to cover its operating expenses). China is the third largest exporter of manufactured goods after Germany and the U.S. China is also one of the most important importers of raw materials consuming a third of the world's steel, iron ore, coal, zinc, and tin. The Chinese consumer plays a pivotal role in the global marketplace. It is the third most important market for luxury goods, where it represents 12% of global luxury sales, behind Japan with 14% and the U.S. with 17%.

India is another country that is taking major steps towards being recognized as an economic power. India's economy is on a pace to grow at 9% in 2006, versus original estimates of 8.4%. Indian companies are aggressively seeking merger and acquisition (M&A) opportunities on a worldwide scale. For example, after its acquisition of Arcelor Steel comapny, by the Indian owned Mittal Steel Company, the renamed; ArcelorMittal became the world's number one steel company with 320,000 employees in more than 60 countries. Similarly, the aggressive acquisition of Corus by Tata & Co. a diversified Indian multinational, the purchase of a controlling stake in Telecom Italia by an Indian conglomerate, and the growing presence of its IT consultancy services is propelling India to new heights in the global economy.

EMERGING MARKETS OF LATIN AMERICA

According to the World Bank, Latin America's total GDP growth averaged 4.4% in 2005 and is expected to grow by 4.6% in 2006. In fact, Chile, Colombia, Peru, and Venezuela are projected to have a GDP growth rate of over 6% in 2007. In 2006, Latin America had the highest export revenues and volumes compared to other regions of the world. From uneven economic progress during the 70's and 80's, this region has had a complete turnaround and is one of the most vibrant regions of the world. With substantial foreign direct investments coupled with increased export activities, the Latin American region is experiencing an economic boon unheard of for this region. More importantly, the economic success is not just centered in one or two countries, but transcends across many of the countries in the region. Countries like Brazil, Chile, Mexico, Peru, and Venezuela through their export activities in items such as automobiles, aircraft, and oil are part of the global economy. A growing middleclass in the region demands imported goods and has the purchasing power to be selective in their choices.

Politically, the region is vulnerable, with leftist governments in Bolivia, Ecuador, and Venezuela and a tendency for radical policy shifts. The region started the year on a bad note, with President Chavez's decision to nationalize the electricity and telecommunication sectors. The announcement underscored the political risks associated with populist governments in the region.

Unfortunately, the events in Venezuela highlight the arbitrariness of political leadership in Latin America. The demise of political parties led to the rise of populists, who were more interested in holding on to power through a variety of headline-grabbing stunts and rhetoric. Unfortunately, the situation in Venezuela is spiraling out of control. The country's infrastructure is buckling and corruption is rampant.

The problems in Venezuela are spreading to other countries in the region. Ecuador and Bolivia are following the radical policies enacted by President Chavez. Argentina's President Kirchner often veers into extremities of populism, and Lula's (Brazil), as well as Alan Garcia's (Peru), ideological background means that such policies are a possibility. Even Chile's President Bachelet hails from the more leftist side of the political spectrum, and is prone to populist ideas.

One of the lessons to be learnt from the past for Latin America is how many of the developing countries were able to dig out of their economic struggles through some innovative privatization policies. But, things have changed and the policymakers are shifting away from some of the key policies that helped them attain economic success. Although privatizations were the norms for the past two decades, nationalizations are part and parcel of developing country policies. Ironically, they occur in countries that are experiencing large current account surpluses. Privatizations are capital account transactions used to plug holes in current account balance, but nationalizations are the opposite. The nationalization of the Argentina railroad and telecommunication systems, at the end of World War II, occurred when the government was flush with cash. Many countries nationalize their energy sectors, when the projects are fully operational—generating strong cash flows and requiring no additional investment. Governments are also lured by sectors that generate monopoly rents, such as electricity and telecommunications. They can produce large profits and provide excellent employment opportunities. Most developing countries including those in Latin America experienced large current account deficits during the past two decades and did not have the resources to nationalize anything. However, the commodity boom of the past five years changed everything, and many countries do not know what to do with the cash. That is why nationalizations could become vogue.

ECONOMIC PERFORMANCE OF SELECTED COUNTRIES IN LATIN AMERICA

What follows are some key economic indicators for a select few countries to highlight the economic performance of these countries in the past five years. The countries that are discussed here include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela. Some of the improvement in the economies of these countries may have been the result of involvement in the global economy.

ARGENTINA

Argentina is one of the few countries in the region that have not met the expectations of investors in terms of economic stability. In the past five years, its gross national income (GNI) per capita has declined from $7,470 in 2000 to $4,470 in 2005. The economy had a negative GDP growth rate of -1% in 2000, -4% in 2001 and -11% in 2002. Since then, it has had some strong showing with an average GDP growth rate of 9% for 2003 through and 2005. Argentina's long-term debt has also been on the rise. In 2000 it had long-term debt of 114 billion dollars and by 2005 this debt had risen to 127 billion dollars. In addition, Argentina has experienced double digit inflation and a decline in its FDI flows.

In spite of its poor start in 2000, a score of economic sectors are operating at full tilt, including agriculture, tourism, and construction. The retail sector is showing signs of increased activity with increases in electro-domestic sales, reflecting the improved purchasing power of Argentine households. Real wages soared 15% in 2005 and was 7% in 2006, allowing households to increase expenditures on discretionary items.

The strong level of economic activity is allowing the government to maintain fiscal discipline. The primary fiscal surplus in 2006 was 3.6% of GDP, and the operational fiscal surplus was 2.13% of GDP. Fiscal discipline, along with a tight monetary position, will allow the government to reign in the inflation rate to a range of 8% to 9%. Argentina's overall creditworthiness is also improving. Argentina's public sector debt dropped to 61.8% of GDP in

2006, from a level of 71% of GDP the year before. The level of indebtedness should fall into the 50% range in 2007. Overall, Argentina's economic performance is mixed, but there are signs that it may recover during the next few years. Some of the key economic indicators for Argentina are presented in Table 1.

Table 1
Selected Economic Data for Argentina

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	11	12	28	25	25	-
FDI ($000,000,000)	10	2	2	2	4	-
GDP ($000,000,000)	284	268	102	129	153	183
GDP growth rate (%)	-1	-4	-11	9	9	9
GNI/capita ($)	7,470	7,010	4,050	3,670	3,670	4,470
Gross capital formation (% of GDP)	16	14	12	15	19	-
Imports (% of GDP)	12	10	13	14	18	-
Inflation (%)	1	-1	31	10	9	9
Long-term debt ($000,000,000)	114	120	120	127	127	-
Merchandise trade (% of GDP)	18	17	34	33	37	37
Population (000,000)	36.9	37.3	38.6	38.0	38.4	38.7

Source: http://devdata.worldbank.org/data-query - February 28, 2007

BOLIVIA

Bolivia's economy has coasted along with below average performance on most economic indicators. GDP growth rate which had averaged 2.5% during the first four years (2000 – 2003) has had a modest rate of growth of 4% in the last two years and is expected to maintain this rate through the year 2007. Merchandise trade as a percentage of GDP is also on the rise from 36% in 2000 to 52% in 2005. Gross national income per capita, inflation, and foreign direct investment flows have all remained steady through the past five years. It is expected that Bolivia's economy will probably continue in its present state for the foreseeable future. Some of the key economic indicators for Bolivia are presented in Table 2.

Table 2
Selected Economic Data for Bolivia

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	18	20	22	25	31	-
FDI ($000,000,000)	0.7	0.7	0.7	0.2	0.1	-
GDP ($000,000,000)	8.4	8.1	7.9	8.0	8.7	9.3
GDP growth rate (%)	3	2	2	3	4	4
GNI/capita ($)	1,000	960	930	920	960	1,010
Gross capital formation (% of GDP)	18	14	17	13	12	-
Imports (% of GDP)	27	25	28	26	27	-
Inflation (%)	5	2	3	6	7	5
Long-term debt ($000,000,000)	5	4	4	5	6	-
Merchandise trade (% of GDP)	36	37	39	40	46	52
Population (000,000)	8.3	8.5	8.6	8.8	9.0	9.2

Source: http://devdata.worldbank.org/data-query - February 28, 2007

BRAZIL

Brazil's economy has also been sluggish in the past few years. Most of the economic indicators are showing a weakness in the economy, except for long-term debt which has decreased over the years from 210 billion dollars in 2000 to 171 billion dollars in 2004. GDP growth rate which had averaged 3.0% during the first six years (2000 – 2005) is expected have growth of 2.8% in 2006 and is projected to grow by 3.5% in 2007. Merchandise trade as a percentage of GDP is steadily on the rise from 19% in 2000 to 25% in 2005. Inflation, a perennial concern in Brazil has been on the rise from 8% in 2000 to 15% in 2005, but is projected to be around 7% in 2007. Foreign direct investment flows have steadily declined from a peak of 32 billion dollars in 2000 to18 billion dollars in 2004. Gross national income per capita had a slight decline from $3,590 in 2000 to 3,460 in 2005. Brazil's economy is expected to show sign of a mild recovery during the next few years. The lower interest rate at around 11.5% by the end of 2007 should boost economic activity. Brazil remains an investor's paradise as its exports continue roar ahead, with an expected trade surplus of more than $40 billion in 2007 and international reserves of almost $100 billion by year-end.

A continued rally in soft commodity prices and the expansion of the ethanol industry will boost embarkations. Brazil's debt to GDP ratio will fall below 40% by the end of 2007, putting it on track for an investment grade rating. Although Brazil may not be the most dynamic economy in asset class, it has a level of consistency and stability that is improving domestic conditions and assuring international investors. The size of the Brazilian economy was $711 billion at the end of 2006, almost twice as big as it was at the start of President Lula's first term in office. Likewise, Brazil's unemployment rate was 9.5% at the end of 2006, versus 12.2% at the end of 2002. Some of the key economic indicators for Brazil are presented in Table 3.

Table 3
Selected Economic Data for Brazil

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	11	13	15	16	18	23
FDI ($000,000,000)	33	22	17	10	18	-
GDP ($000,000,000)	601	508	461	506	604	794
GDP growth rate (%)	4	1	2	1	5	2
GNI/capita ($)	3,590	3,040	2,790	2,680	3,000	3,460
Gross capital formation (% of GDP)	22	21	20	20	21	19
Imports (% of GDP)	12	14	13	13	13	15
Inflation (%)	8	7	10	15	8	7
Long-term debt ($000,000,000)	210	194	189	184	172	-
Merchandise trade (% of GDP)	19	23	24	25	27	25
Population (000,000)	173.9	176.4	178.9	181.4	184.0	186.4

Source: http://devdata.worldbank.org/data-query - February 28, 2007

CHILE

Chile's economy has performed relatively well compared to other countries in the region. Its GDP growth rate has averaged over 4% for the past six years and is estimated to be around 4.4% in 2006 and projected to be 5.5% in 2007. Gross national income per capita has risen from $4,850 in 2000 to $5,870 in 2005. Chile has received a steady flow of foreign direct investment over the past few years and is expected that this trend will continue for another few years. Inflation too has been under control and has averaged just over 5% between 2000 and 2005. In addition, merchandise trade as a percentage of GDP has been on the rise in recent years growing from 50% in 2000 to 63% in 2005. Chile is projected to be economically vibrant for the next few years.

Today, Chile is the picture of economic stability. It has a prosperous middle class, a moderate growth rate and price stability. However, it is no longer the dynamo it once was during the late 1980s and 1990s. The projected GDP growth rate of 5.5% in 2007 is rather lame, considering the boom in metal prices and the favorable international environment. The unemployment rate of 6.6% in 2006 was much better than the 8.8% that was recorded in 2005. Chile is one of the world leaders in signing free trade agreements, finalizing trade pacts with China, Colombia, India, Panama, and Peru. It is also consummating similar agreements with Brunei, Japan, New Zealand, and Singapore. Even with all these trade agreements, Chile continues to be principally, a copper producing country with less diversification given the appreciation of the currency. Some of the key economic indicators for Chile are presented in Table 4.

Table 4
Selected Economic Data for Chile

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	32	33	34	37	41	42
FDI ($000,000,000)	5	4	3	4	8	-
GDP ($000,000,000)	76	69	67	74	95	115
GDP growth rate (%)	4	3	2	4	6	6
GNI/capita ($)	4,850	4,610	4,330	4,320	4,930	5,870
Gross capital formation (% of GDP)	22	22	22	22	21	23
Imports (% of GDP)	30	32	32	32	32	34
Inflation (%)	5	4	4	6	7	5
Long-term debt ($000,000,000)	31	33	35	35	36	-
Merchandise trade (% of GDP)	50	52	52	56	60	63
Population (000,000)	15.4	15.6	15.8	16.0	16.1	16.3

Source: http://devdata.worldbank.org/data-query - February 28, 2007

COLOMBIA

Colombia's economy has shown some strength in the past few years. After a slow start, the GDP has been growing at a steady rate of nearly 5% in the last 3 years and is estimated that it will reach 6.0% in 2006. Inflation is also under control and is averaging just over 6%. Colombia's FDI flows are also on the rise from 2 billion dollars in 2000 to 3 billion dollars in 2004. Merchandise trade as a percentage of GDP is rising steadily from 29% in 2000 to 35% in 2005. Gross national income per capita and long-term debt of the country has remained almost at the same level over the last six years.

Colombia's economy is humming and private consumption is the main engine of growth. Consumer activity was so high in 2006 that a new shopping center was inaugurated every 23 days. Automobile sales have soared to record levels. Colombian exports rose 27% by the end of 2006 on the back of increasing oil and coal prices. Columbia's economy should continue its upward swing for a few more years. Some of the key economic indicators for Colombia are presented in Table 5.

Table 5
Selected Economic Data for Colombia

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	22	20	19	21	22	21
FDI ($000,000,000)	2	3	2	2	3	-
GDP ($000,000,000)	84	82	81	79	97	122
GDP growth rate (%)	3	1	2	4	5	5
GNI/capita ($)	2,060	1,930	1,840	1,840	2,010	2,290
Gross capital formation (% of GDP)	14	14	15	17	18	19
Imports (% of GDP)	19	21	21	22	21	21
Inflation (%)	12	6	6	8	6	6
Long-term debt ($000,000,000)	31	33	30	33	32	-
Merchandise trade (% of GDP)	29	31	30	34	34	35
Population (000,000)	42.1	42.8	43.5	44.2	45.0	45.6

Source: http://devdata.worldbank.org/data-query - February 28, 2007

ECUADOR

Ecuador's GDP is growing at a steady rate of 4% for the past few years and is estimated to reach 4.9% in 2006 and projected to be 4.0% in 2007. Foreign direct investments have averaged just over I billion dollars and inflation is under control in recent years averaging just under 7% in the last 2 years. Gross national income per capita is on the rise increasing from $1,340 in 2000 to $2,630 in 2005. Ecuador's merchandise trade as a percentage of GDP has averaged 50% over the past six years and its long-term debt is on the rise from 12.7 billion dollars in 2000 to 15 billion dollars in 2004. Overall the economic outlook for Ecuador is bright for the next few years. Some of the key economic indicators for Ecuador are presented in Table 6.

Table 6
Selected Economic Data for Ecuador

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	37	26	23	23	24	-
FDI ($000,000,000)	0.7	0.1	0.1	0.2	0.1	-
GDP ($000,000,000)	16	21	25	29	33	36
GDP growth rate (%)	3	5	4	4	8	4
GNI/capita ($)	1,340	1,380	1,560	1,930	2,360	2,630
Gross capital formation (% of GDP)	20	25	27	26	26	-
Imports (% of GDP)	31	31	31	27	26	-
Inflation (%)	-7	27	12	11	7	6
Long-term debt ($000,000,000)	13	13	14	15	15	-
Merchandise trade (% of GDP)	54	47	46	45	47	54
Population (000,000)	12.3	12.5	12.7	12.9	13.0	13.2

Source: http://devdata.worldbank.org/data-query - February 28, 2007

MEXICO

Mexico's GDP grew by 7% in 2000, but declined to 0% in 2001, 1% in 2002 and 1% in 2003. Since then, the economy has grown on an average of 4% and is projected to do the same in 2007. Gross national income per capita is on the rise increasing from $5,110 in 2000 to $7,310 in 2005. Mexico had 17 and 27 billion dollars in FDI flows during 2000 and 2001 respectively, but the FDI flows have declined in the past 3 years to around 15 billion dollars. Inflation is under control in recent years averaging just over 7% and is expected to continue at this rate.

Mexico's entry into NAFTA has not been all that beneficial for the country. The terms of the free trade agreement forced Mexico to focus on light manufacturing, a sectors where it enjoyed no comparative advantage—particularly on a global scale. As a result, Mexico's trade balance steadily eroded and is expected to reach a deficit of $8.5 billion in 2007 from a surplus of $6.5 billion a decade ago. Long-term debt and other economic indicators are all showing signs of maintaining a steady course for the Mexican economy for years to come. Some of the key economic indicators for Mexico are presented in Table 7.

Table 7
Selected Economic Data for Mexico

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	31	28	27	28	30	30
FDI ($000,000,000)	17	28	15	12	17	-
GDP ($000,000,000)	581	622	649	639	683	768
GDP growth rate (%)	7	-0	1	1	4	3
GNI/capita ($)	5,110	5,580	6,010	6,370	6,930	7,310
Gross capital formation (% of GDP)	24	21	21	21	22	22
Imports (% of GDP)	33	30	29	29	32	32
Inflation (%)	12	6	7	8	7	5
Long-term debt ($000,000,000)	131	131	130	132	130	-
Merchandise trade (% of GDP)	60	54	52	54	58	58
Population (000,000)	98.0	99.0	100.0	101.0	102.0	103.0

Source: http://devdata.worldbank.org/data-query - February 28, 2007

PERU

Peru's GDP grew by an average of 4% between 2000 and 2005, but is estimated to hit 7.2% in 2006 and projected to reach 6% in 2007. Inflation has remained under control averaging just over 3% for the past six years. Gross national income per capita is on the rise increasing from $2,050 in 2000 to $2,610 in 2005. Other economic indicators such as FDI flows, long-term debt and trade balances all remain steady for Peru.

The Peruvian economy may be the envy of some countries in the region. Export sectors such as silver and the Camisea gas fields were the most vibrant. Silver prices surged 68% last year boosting embarkations. Total exports rose 29% in 2006, a three-fold increase from the start of the decade. The strength of the Peruvian economy sparked has sparked a large increase in foreign direct investments, as well as the appreciation of the Peruvian Sol. In the long-run, Peru is expected to maintain its economic vitality and benefit from its rational economic policies. Some of the key economic indicators for Peru are presented in Table 8.

Table 8
Selected Economic Data for Peru

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	16	16	16	18	21	25
FDI ($000,000,000)	0.8	1	2	1	2	-
GDP ($000,000,000)	53	54	57	61	69	78
GDP growth rate (%)	3	0	5	4	5	7
GNI/capita ($)	2,050	1,970	2,020	2,150	2,360	2,610
Gross capital formation (% of GDP)	20	19	19	19	18	18
Imports (% of GDP)	18	18	17	18	18	19
Inflation (%)	4	1	1	2	6	3
Long-term debt ($000,000,000)	24	24	26	27	29	-
Merchandise trade (% of GDP)	27	27	27	29	33	38
Population (000,000)	26.0	26.3	26.7	27.1	27.6	28.0

Source: http://devdata.worldbank.org/data-query - February 28, 2007

VENEZUELA

Venezuela's GDP grew by 4% in 2000 and 3% in 2001, but had negative growth in 2002 and 2003 respectively (-9% and -8%). Since then, the economy has had robust growth of 18% in 2004 and 9% in 2005. It is estimated that Venezuela's economy will grow by 10% in 2006 and is projected to reach 7% inn 2007. Gross national income per capita is on the rise increasing from $4,100 in 2000 to $4,810 in 2005. Peru's long-term debt has averaged around 30 billion dollars. Some disturbing trends in the economy are the double digit inflation rate that has remained around 30% and the FDI flows which have been declining steadily from around 5 billion dollars in 2000 to 1.5 billion dollars in 2004.

Venezuela is a country with immense wealth and with deep cultural ties to the U.S. In the long-run, Venezuela's economy is going to depend on the policy guidelines dictated by President Chavez. Some of the key economic indicators for Venezuela are presented in Table 9.

Table 9
Selected Economic Data for Venezuela

Variable	2000	2001	2002	2003	2004	2005
Exports (% of GDP)	30	23	30	34	36	-
FDI ($000,000,000)	5	4	0.8	3	2	-
GDP ($000,000,000)	117	123	93	83	110	139
GDP growth rate (%)	4	3	-9	-8	18	9
GNI/capita ($)	4,100	4,580	3,970	3,470	4,030	4,810
Gross capital formation (% of GDP)	24	28	21	16	21	-
Imports (% of GDP)	18	19	18	17	20	-
Inflation (%)	29	8	33	35	31	29
Long-term debt ($000,000,000)	34	31	29	30	31	-
Merchandise trade (% of GDP)	42	37	43	44	50	58
Population (000,000)	24.3	24.8	25.2	25.7	26.1	26.6

Source: http://devdata.worldbank.org/data-query - February 28, 2007

CONCLUSION

This Latin American region has seen an emergence of economic power and is poised to be a major player in the global economy. Surging exports, control of inflation, and sound fiscal and monetary policies have helped countries in the region to enter the global economy. Many of the countries of the region have had steady growth rates and are experiencing renewed confidence in their economies from foreign investors. Countries such as Brazil, Bolivia, Chile, Colombia, Mexico, and Peru have had success in managing their economies and these economies should continue to perform well.

But the political situation in many countries including in Bolivia, Ecuador and Venezuela has shattered of foreign investors and may derail any potential economic gains. Due to some of the policy shifts observed among some of the countries in this region in recent months, investors are having second thoughts about Latin America and this can not be good for this region.