Much of the information herein has been drawn from reports prepared by Walter Molano of BCP Securities and Jose Barrionuevo of Barclays Capital. The views expressed here reflect however the opinion of the writer.
LATIN AMERICA IN THE GLOBAL ECONOMY
THE RECENT EXPERIENCE

First Some Facts and Statistics

. . . Looking back

- Average inflation - second half of the 1990's: 14%
- Average GDP growth rate - second half of the 1990's: 2.7%
- Significant inflows of capital in the form of direct and indirect investments.
- Extensive but now slowing down privatization of large state-owned companies.
- Slow progress in social reforms (uneven distribution of incomes and wealth: lagging health care, pension, and labor force training.)
. . . Looking ahead

- Increased exports due to severe devaluation of currencies.
- Improvement of current account deficits due to better exports, lower imports and higher commodity prices.
- Improving GDP growth rates.
- Higher inflation rates due to currency devaluations.
- High indebtedness ($30 billion debt rollover annually) restricts flexibility of fiscal and monetary policy as far as pro-growth policies and social reforms are concerned.
Latin American Crises in the 1990's

- 1994: The Mexican Peso crisis
- 1999: Crises in Brazil and Columbia; Ecuador’s credit default.
- 2001-2: Argentina’s credit default.
- 2002: Brazil’s fiscal difficulties; Lula Da Silva is elected president under a restrictive IMF plan.
- 2002-3: Venezuela political and oil crisis.

A tradition of boom and bust cycles.

Result: Popular disillusionment and disgruntlement with globalization.
The External Sources of Latin America’s Problems (The Walter Molano View)

- L.A. exports commodities to developing economies of Asia.
  - Uses proceeds to pay for imports of high-end goods from the developing countries of Asia.

- Developing countries of Asia use commodities imported from L.A. to manufacture and export inexpensive low-end goods to the developed countries of North America, EU and Japan.

What went wrong:

- Agricultural subsidies in developed economies reduce L.A. exports.
- Low-skill workers in developed countries resent cheap manufacture of developing countries and call for trade barriers.

The result: Current account deficits; inability to roll over maturing debt; currency and credit crises.
Problems in the Financial Sector

- To pursue their policies L.A. countries needed foreign capital.
- Wall Street bankers too eager to trumpet Latin American reforms in the 1990's and rush to raise capital.
- Wall Street bankers ignored fundamentals as they encouraged clients to accumulate L.A. securities.
Latin America’s Internal Failures (The Jose Barrionuevo View)

- Latin American economies have failed not because of liberal market reforms but because of poor application and execution of such reforms.
- Powerful domestic business and political elites resent meaningful change.
- Legal provisions are antiquated, weakly enforced and in severe need for reform.
- Poor support to the private economic sector.
- Failure to solve social problems (wealth and income distribution, healthcare, pensions and labor force upgrade).
- Poor monitoring of foreign capital inflows for direct portfolio investments.