2011 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

Terry L. McCoy

November 2011

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Preface

This is the thirteenth edition of the *Latin American Business Environment Report* (*LABER*). Although I have incorporated changes over the years, the goal of the report remains the same: to present in a single document a straightforward, balanced appraisal of the economic, social, and political events in the past year that have shaped the business and investment climate in Latin America as a region and in its 18 largest markets.[*]

The *LABER* is a publication of the Latin American Business Environment Program in the Center for Latin American Studies at the University of Florida. Through graduate degree options, courses and study abroad opportunities, the program draws on the expertise and resources of the University to prepare students for careers related to Latin American business. It also organizes conferences, supports the publication of scholarly research and provides professional consulting services for the business community and other interested parties.

In addition to the Center for Latin American Studies, the Center for International Business Education and Research (CIBER) in the Warrington College of Business Administration at the University of Florida supports publication of the *LABER*. Lindsay Barnes Arrieta has assisted me in researching and producing the report. Charles Wood edited the *2011 LABER*. I thank them for their invaluable assistance, but I alone am responsible for the content and analysis.

Terry L. McCoy, Director
Latin American Business Environment Program
Center for Latin American Studies
University of Florida
tlmccoy@latam.ufl.edu
http://www.latam.ufl.edu/LABE/index.stm

[*] Electronic versions of all 12 previous reports can be accessed at http://www.latam.ufl.edu/labe/publications.stm. The report may be cited without permission, but users are asked to acknowledge the source.

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EXECUTIVE SUMMARY

The Latin America business environment remained healthy as it entered the last quarter of 2011, although the growing uncertainty at the global level was beginning to have negative regional effects. Strong exports and rising domestic demand propelled the robust economic recovery – from the 2008 global financial crisis that began in mid-2009. This trend continued in 2011. Improved country risk ratings and strong investment flows reflected a growing confidence that the economies of Latin America had turned a corner. Renewed growth protected social gains and assured political stability, both of which also strengthened the business environment.

The *LABER* classifies the 18 largest economies into three broad categories – attractive, problematic, and mixed – according to the overall character of their environments. The table below further classifies the yearly country environments as improved (▲), deteriorated (▼), no significant change (=) or uncertain (?). While there were no dramatic improvements or deteriorations from 2010 to 2011, based on steady improvement over the last decade, Colombia was upgraded from mixed to attractive, and Honduras from problematic to mixed as its internal and external situations were normalized. The outlook for 2012 is guarded because of the increasingly unsettled external environment. Should the stagnation in the mature markets deepen into a recession and thereby slow Chinese growth and weaken commodity prices, Latin America would be seriously affected.

Latin American Business Environments

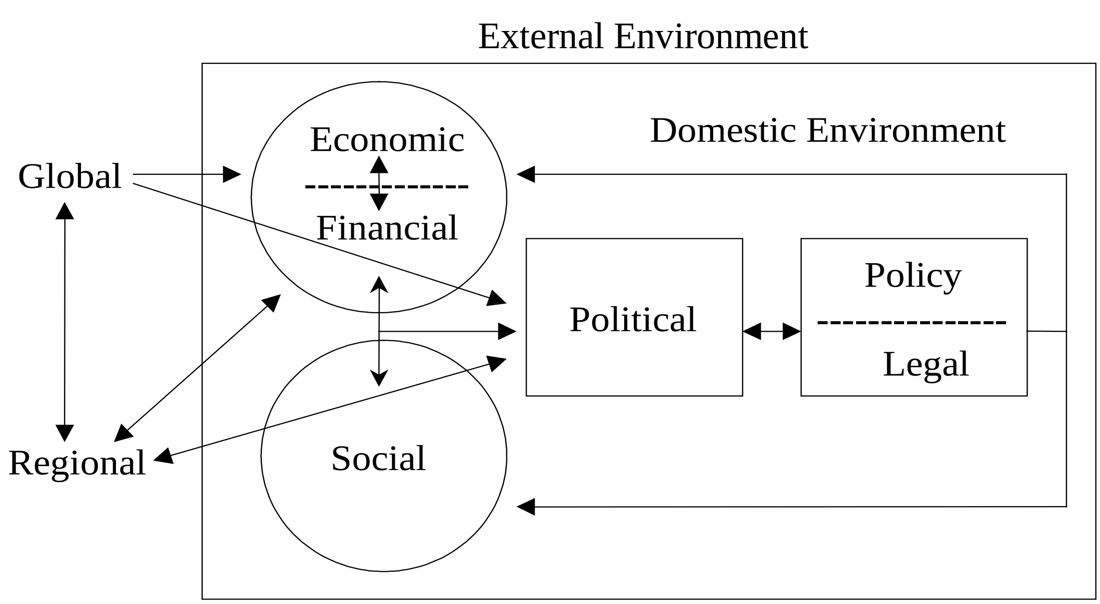
	2010 Environment			2011 Environment			2012
	Attractive	Problematic	Mixed	Attractive	Problematic	Mixed	Outlook
Mexico	▲			=			▲▼
Dom Rep	▲			=			?
Costa Rica	▲			▼			=
El Salvador			▲			=	=
Guatemala			=			=	?
Honduras		▲				▲	=
Nicaragua		=			▲		=
Panama	▲			=			=
Bolivia		▲			▲		=
Colombia			▲	▲			=
Ecuador		▲▼			=		=
Peru	▲			▲▼			▲
Venezuela		▼			▼		?
Argentina			▲			▲	▼
Brazil	▲			▼			=
Chile	▲			=			?
Paraguay			▲			=	=
Uruguay	▲			▲			=
Total	**8**	**5**	**5**	**9**	**4**	**5**	

2011 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

INTRODUCTION

The growth that resumed in Latin America in the second half of 2009 and accelerated through 2010 continued, albeit at diminished rate, in 2011. The region's quick and persistent recovery from the 2008-09 global financial crisis despite growing uncertainty in the global economy underlined the new business environment that has taken hold in many countries in the region. Centrist governments diversified trade and capital flows, and pursued a "social market" model, which combines social reforms with the market reforms of the 1990s. The result has been a boom in domestic consumption and stronger economic links to China, both of which helped insulate Latin America from the onset of the downturn in the mature markets that began in mid-2011. So far so good, but if the European debt crisis assumes global dimensions the economic slowdown will surely affect Latin America.

Figure 1
Components of the Latin American Business Environment



The conceptual framework shown in Figure 1 depicts salient components that shape a country's business environment. With these relationships in mind, Part I of the *2011 LABER* summarizes the major regional developments that began in the last quarter of 2010 and lasted through November 2011. Part II presents snapshot assessments of the 18 largest markets, grouped by geographic region and trading bloc (see Map).[1] Part III presents the outlook for 2012 for the region and each of the 18 countries regrouped by the overall character of their business environment. The tables that follow the text contain country specific data and regional averages for the economic, social, political and legal indicators utilized for the analysis. This year we simplified our treatment of the legal environment, reducing the number of indicators into a single table.

[1] Venezuela, a founding member of the Andean Community, left the Community and applied for full MERCOSUR membership. Bolivia is a member of CAP and an associate member of MERCOSUR. Chile rejoined CAP in 2007 and is an associate member of MERCOSUR.


NAFTA
Mexico
Dominican
Republic
Honduras
Guatemala
Nicaragua
El Salvador
Costa Rica
Panama
DR-
CAFTA
Venezuela
Colombia
Ecuador
Peru
ANDEAN
COMMUNITY
Brazil
Bolivia
Paraguay
MERCOSUR
Chile
Uruguay
Argentina

I. REGIONAL OVERVIEW

EXTERNAL ENVIRONMENT

The global environment became increasingly unsettled during 2011. With the eruption of the Euro Zone debt crisis and downgrade of the U.S. sovereign credit rating in August, analysts lowered their estimates for growth in the world economy and increased their estimate of the risks of a double-dip recession. Latin America has been vulnerable to external shocks throughout most of its history, but this has changed in recent years. By establishing closer ties to emerging markets, led by China, the region has become less vulnerable to global recessions. Following her November tour of major Latin American countries, the new IMF Managing Director noted the shift in the balance of economic power and the growing significance of emerging economies in solving global problems.

Global Developments ▼ [2]

- ***Emerging markets helped offset U.S. and European stagnation***
  In September the IMF lowered its global growth forecasts for both 2011 and 2012 to 4%. Whereas the advanced economies are expected to grow at only 1.6% and 1.9%, respectively, it estimated the growth in the emerging economies at 6.4% and 6.1%.

- ***Capital flows to emerging markets accelerated during the first half of the year***
  The uncertainty surrounding the U.S. and Europe, and the declining risk premiums for major developing economies, redirected capital flows from mature to emerging markets. For Latin America, this shift translated to a reduced cost of capital and greater foreign investment, both direct and portfolio. The caution provoked by the U.S. downgrade and the Euro Zone debt crisis nonetheless produced contagion effects in emerging markets.

- ***Global trade continued to recover although commodity prices softened***
  Latin America's terms of trade recovered in 2010 (Figure 2), especially in most of South America's natural resource-based economies (Table 1). However, with commodity prices dropping from their historic highs, the terms of trade fell in the second half of 2011. Uncertainty regarding Chinese growth and demand plus the European downturn were the main causes of global commodity price declines.

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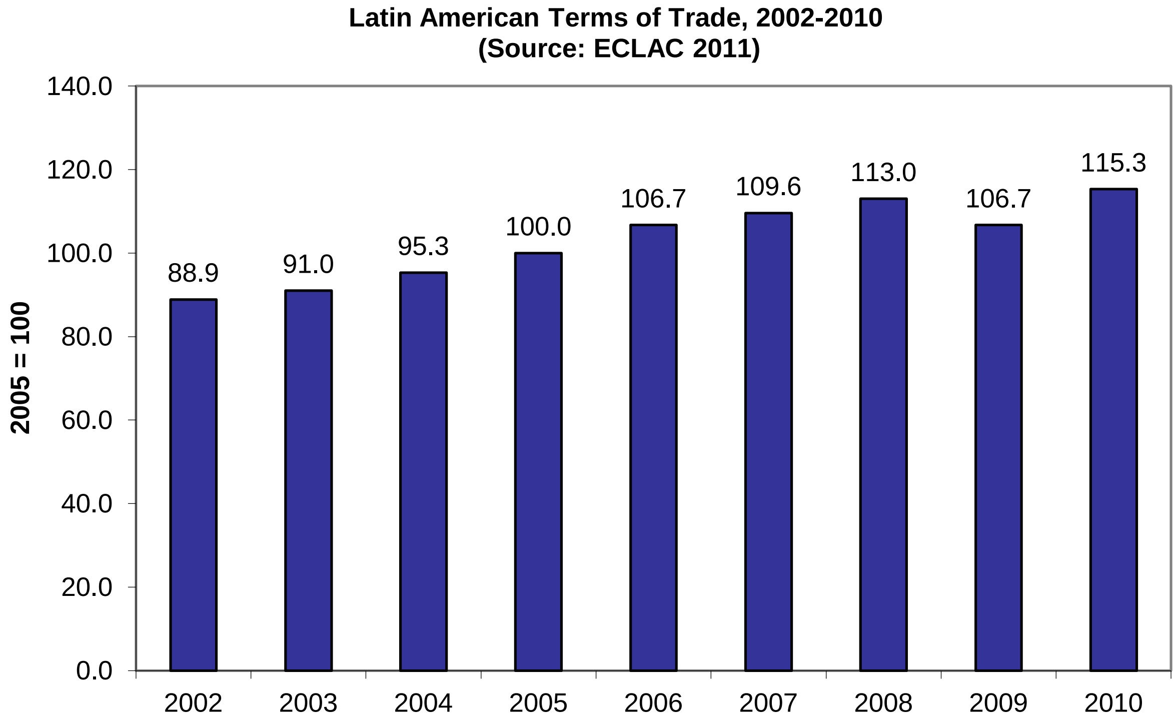
[2] Symbols indicate developments of key components of environment (▲ improved; ▼ deteriorated; = no significant change) since the 2010 report was released.

Figure 2



Regional Developments =

- ***U.S.-Latin American relations drifted***
  Washington made modest headway in implementing President Obama's 2009 commitment to build "a new era of partnership" with Latin America. Republicans claimed control of the House of Representatives in the November 2010 elections, which greatly complicated the president's task. In March, Obama made a fence-mending trip to Brazil, Chile and El Salvador, but major issues remained unresolved. Congress did give final approval to the Free Trade Agreements (FTAs) with Colombia and Panama. The president resurrected his call to reform U.S. immigration policy – an issue of great concern to Latin American governments – but Congress failed to act. By executive order, Obama did reduce the scope of deportation proceedings. Republicans attempted to block funding for the Organization of American States. The U.S assumed a leadership role in forming the Trans Pacific Partnership, which included Chile and Peru as negotiating members. Because China was not a member, some observers saw the new organization as an attempt by Washington to counter China's growing presence in Latin America.

- ***Latin America adopted a more independent, assertive posture***
  Discouraged by the lack of attention from Washington, and buoyed by economic success and political credibility, Latin American governments – led by Brazil and prodded by Venezuela – continued to build new global linkages and strengthen intra-regional ties. Chinese trade and financial flows grew in importance throughout the region. China displaced the U.S. as the main export destination for Brazil and Chile, and increased its

stake in the region's energy industry. Within Latin America, the ALBA bloc aligned six populist-leaning regimes with Venezuela, while UNASUR grew more influential as an agenda setter in South America. In April, Venezuelan President Chávez proposed the creation of the Community of Latin American and Caribbean States, which held an organizing meeting in early December. In July, the presidents of Chile, Colombia, Mexico and Peru signed an agreement (*Acuerdo del Pacífico*) to promote closer collaboration.

- ***Honduras was reincorporated into the Inter-American system***

DOMESTIC ENVIRONMENT

Latin America's growth in 2010-11 restarted the virtuous cycle that sustained the improvement of business environments throughout the region. Economic growth produced jobs and rising incomes, which stimulated increased domestic consumption and attracted foreign investment. The sustained growth trend bolstered centrist politics and economic policies. Against the backdrop of the turmoil in mature economies, Latin America became an even more attractive place to do business.

Economic and Financial Performance=

- ***Growth moderated***
  The regional growth rate was expected to decline from 5.9% to 4.2% (Figure 3). In all of the 18 *LABER* countries, except three, economic growth exceeded 3% (Table 2). Even Venezuela resumed growing after a two-year recession. The domestic market displaced exports as the most important economic driver in most countries, and cushioned the region against possible external shocks.

- ***Inflationary pressures grew in first half of 2011 but weakened in second***

- ***Mixed financial performance***
  The major Latin American stock markets were down 18.8% (-22.1% in US$) for the year in mid-September. Brazilian banks were all down 10% to 22% for the year in mid-September. However, according to the Latin America Venture Capital Association, funding for private equity and venture capital was on track to exceed the 2010 record of $8.1bn in mid-September. Domestic credit and other banking services (including mortgage lending) expanded, especially to lower income groups, and banks were not likely to be seriously affected by the European financial crisis.

- ***External standing stronger in the face of global uncertainty***
  FDI continued the recovery begun in 2010 (Figure 5 and Table 4 do not contain the adjusted 2010 FDI). ECLAC reported in October that FDI had increased 54% in the first half of 2011 compared to 2010. The quadrupling of FDI outflows from Latin American countries and narrowing bond spreads (Brazil and Mexico were perceived as less risky than Portugal and Spain) were additional indicators of the region's enhanced international stature. Trade also recovered although the region ran a current account deficit (Figure 6, Table 5). The accumulated external debt increased, but the debt burden stayed under 20% of GDP (Figure 7, Table 6) and external reserves were strong in most countries. The downside of this strong performance was currency appreciation (Table 8), which hurt relative prices and competitiveness, especially of manufactured goods. Latin American currencies experience modest depreciation in response to the European financial crisis.

Figure 3

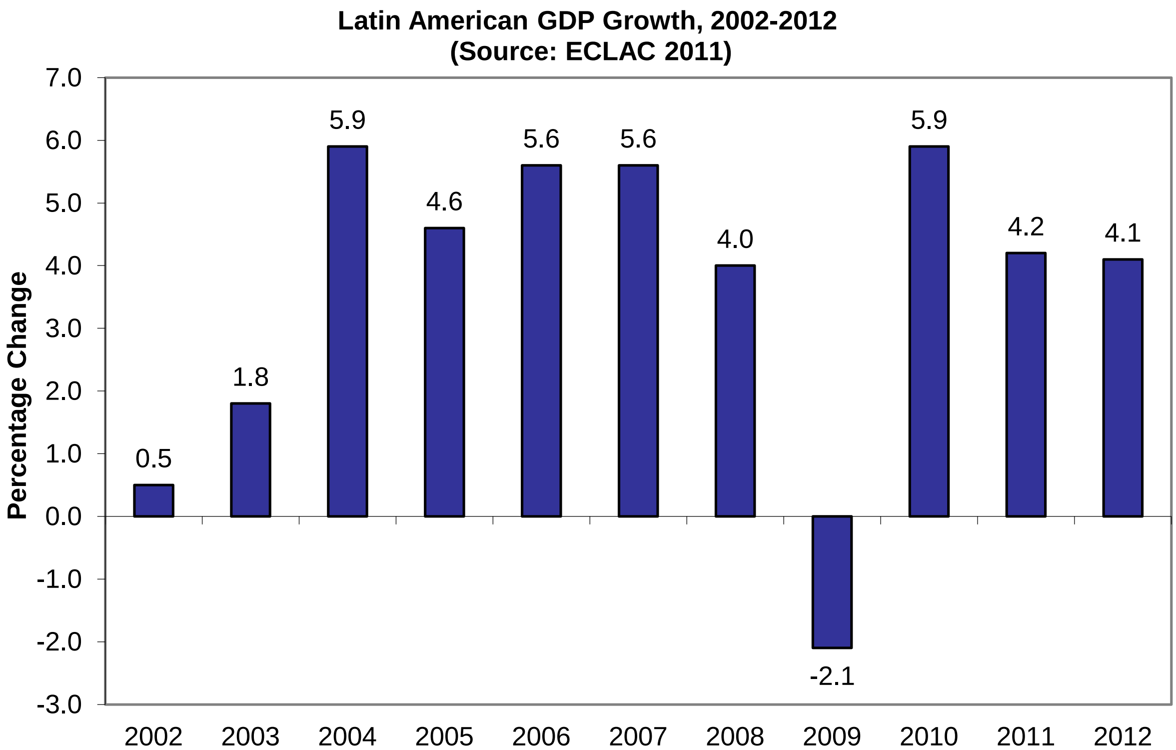


Figure 4

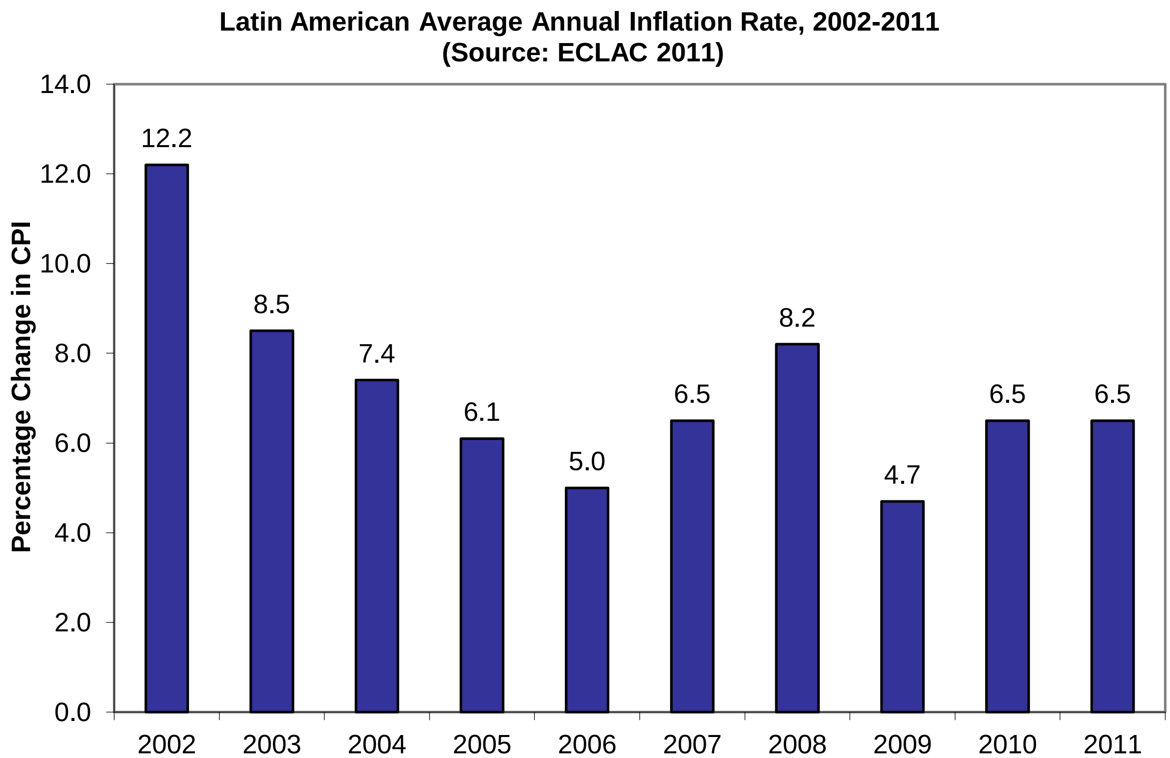


Figure 5

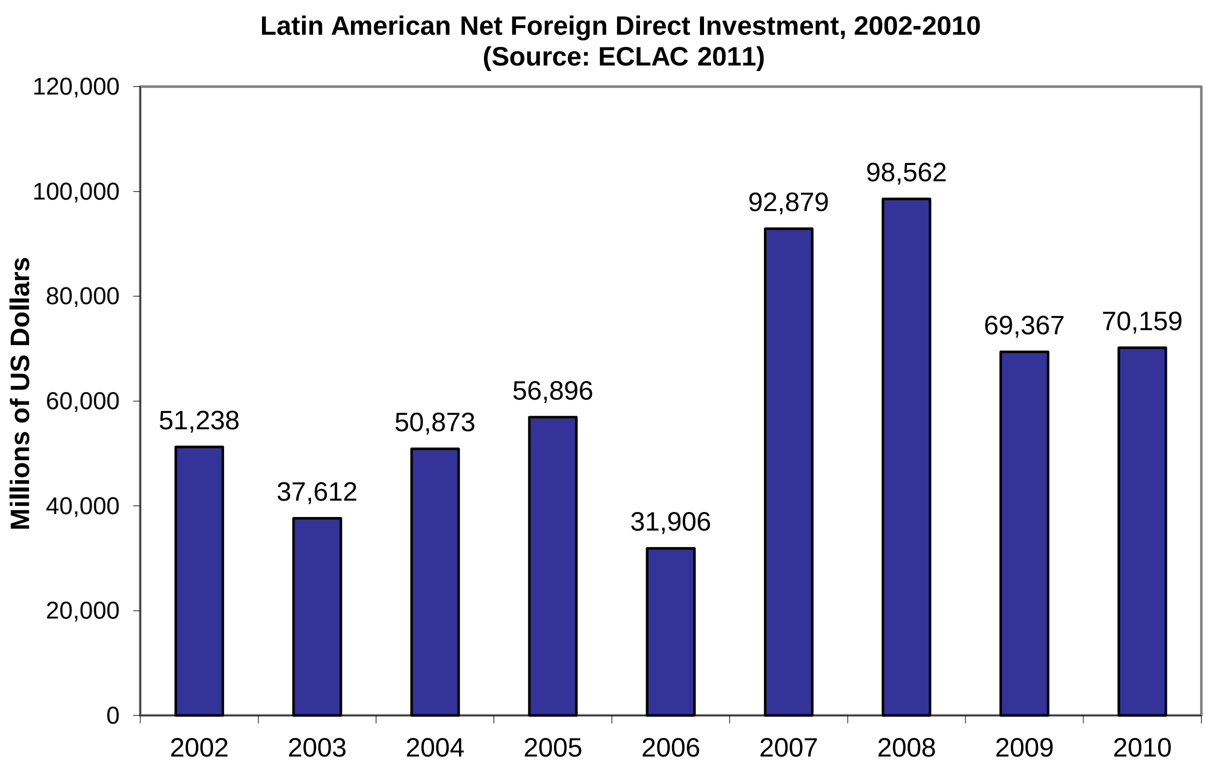


Figure 6

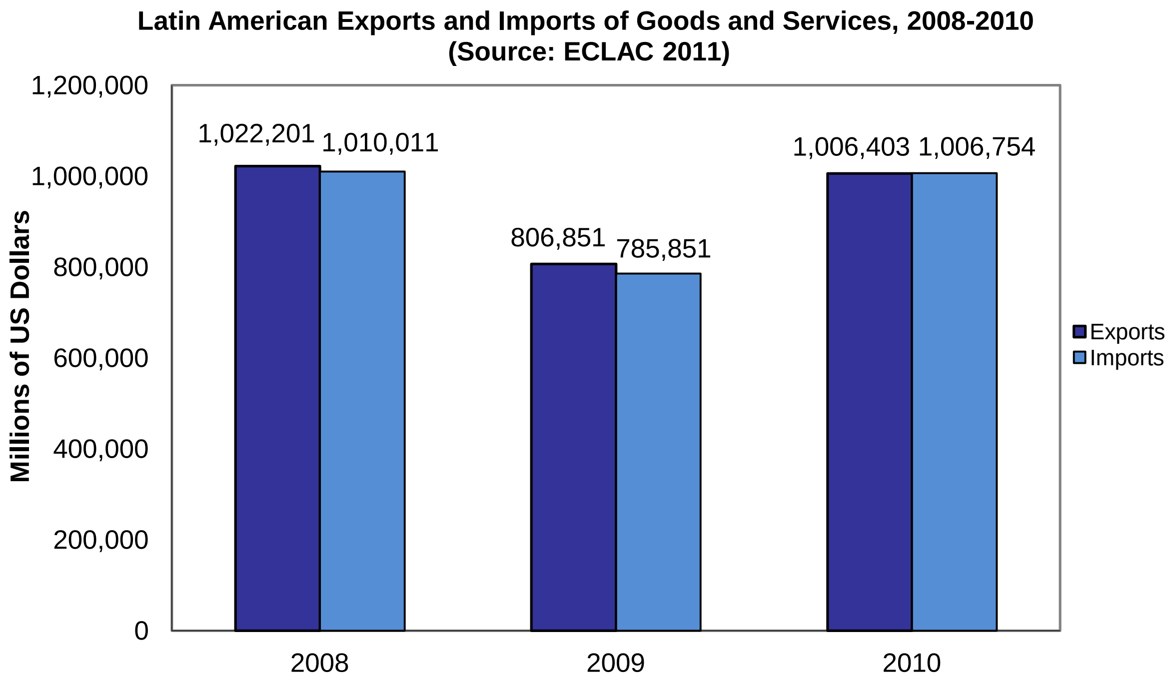
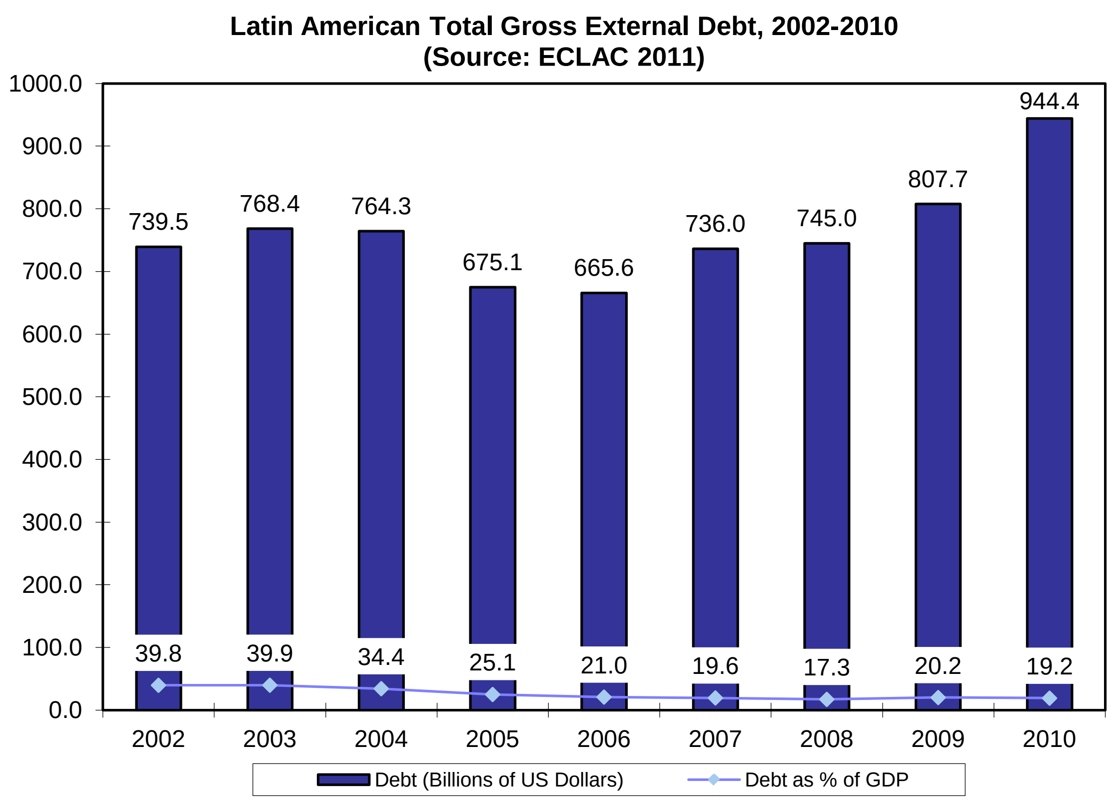


Figure 7



***Social Environment*▲**

Renewed economic growth, combined with the targeted income transfer programs adopted throughout the region, continued to reduce poverty and inequality. In November, ECLAC reported that poverty in Latin America fell to its lowest level in two decades, from 48.4% to 31.4%. Formal job creation increased. ECLAC predicted that regional unemployment would fall below 7% in 2011. The increase in organized criminal violence in Mexico and Central America marred an otherwise encouraging social picture.

- ***Growing middle class fueled consumer boom***
  Increasing incomes moved Latin Americans into the lower middle class where they gained access to expanding consumer credit.

- ***Demographic transition reshaping population structure***
  The rapid decline in fertility rates lowered population growth, which promises to increase old age dependency. This meant government would face increased demands on social welfare and retirement programs.

- ***Indigenous protests challenged governments***
  In several countries, local communities organized – sometimes violently – in opposition to large energy mining and infrastructure projects.

***Political Environment* ▲**

Economic growth and improved standards of living strengthened both the commitment to democracy and centrist politics in most countries. From the business perspective, these trends point to greater predictability and accountability.

- ***Most elections confirmed a shift to the center***
  The November 2010 run-off in Brazil set the tone for the year's elections. It brought to power the left-of-center candidate who took office committed to continue the market-friendly policies of her popular predecessor. The mid-year election in Peru demonstrated the power of the Brazilian model. The winner, also from the left, jettisoned the previous populist platform on which he had run in favor of an explicit promise to adhere to the Lula line. The President-elect of Guatemala took a hard line on crime but a middle-of-the-road stand on economic policy.

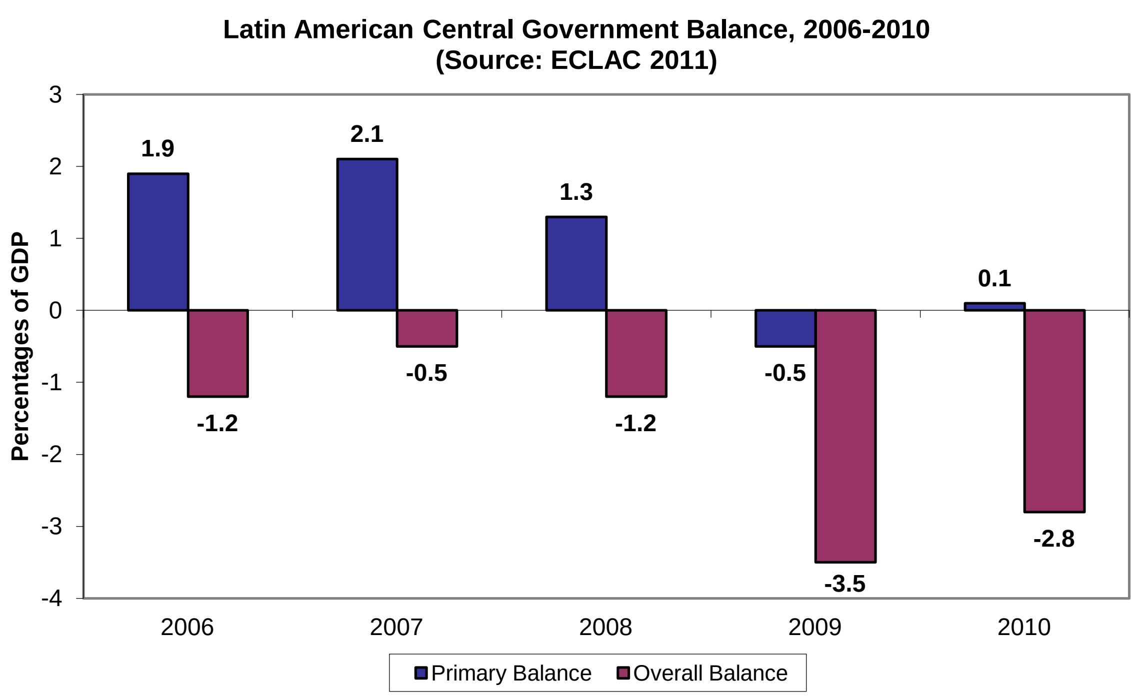
- ***Nicaragua and Argentina returned populist-leaning governments to power***

Policy Environment=

Centrist governments continued to adhere to orthodox market-friendly economic policies, and to popular income transfer programs. Their challenge in the first half of 2011 was to find a balance between controlling inflation and currency appreciation without stifling growth. The return to strong growth in 2010 helped reduce fiscal deficits (Figure 8 and Table 11) and rebuild reserves necessary to implement countercyclical fiscal policies. As the global economy slowed in the second half of 2011, Latin American governments prepared to implement the stimulus measures that had served them well in the 2008-09 crisis.

- ***Governments bought dollars and imposed short-term capital controls***
- ***Central banks began year raising, before pausing and then lowering interest rates***

Figure 8



Legal Environment=

Table 12 captures the variability in the legal environments of Latin America. By these measures, some countries had strong environments – Chile, Uruguay and Costa Rica – while the legal environment guaranteed little protection for business in others – Venezuela, Ecuador, Bolivia and Nicaragua. Leaving aside those where the risk was highest, Latin America's legal environments were comparable to that of China, the market against which other emerging markets are judged. It is the size of the Chinese market and its dynamic growth that sets it apart.

- ***Bilateral agreements and extraterritoriality impacted legal environments***
  The U.S. FTAs with Colombia and Panama required trade and investment-related reforms of their legal systems. Panama also implemented a tax information exchange agreement with the U.S. Implementation of the U.S. Foreign Account Tax Compliance Act, which takes effect in 2013, requires Latin American banks to realign their reporting procedures to generate data on their U.S. clients. Likewise, Great Britain enacted a far-reaching anti-bribery measure (Bribery Act) that goes beyond even the U.S. Foreign Corrupt Practices Act in holding companies and individuals liable for bribery abroad. Most Latin American nations subscribe (Ecuador and Bolivia withdrew in recent years) to the International Center for the Settlement of Investment Disputes to resolve cross-border disputes between investors and host governments.

- ***Governments reversed amnesty laws***
  Uruguay, Argentina and Brazil took steps to remove immunity that was granted to members of the government for human rights violations committed during the military dictatorship. Some officials were brought to trial and convicted.

II. COUNTRY PROFILES

NAFTA REGION

In July, the U.S. finally agreed to lift the ban on Mexican trucks entering the U.S. as provided in NAFTA. Once the trucks began rolling into the U.S. in late October, Mexico progressively removed the retaliatory tariffs that had been selectively imposed (again as authorized under NAFTA) on imports from the U.S. Beyond improving relations between the two NAFTA partners, the action was expected to boost Mexican manufacturing. Cross-border migration, drug-trafficking and gun-sales continued to dominate U.S.-Mexico relations.

Mexico[3]=: Credible performance in a challenging year.

- ***Growth exceeded expectations while inflation was low***
  During 2010 and the first half of 2011, the Mexican economy made a strong recovery from the 2009 recession, outperforming the U.S. economy to which it is closely linked. GDP growth nonetheless began to slow at mid-year, pulled down by the slowdown north of the border and by the European debt crisis. Even so, GDP growth for 2011 and 2012 is predicted to exceed average growth for the previous decade. Slowing growth reduced inflationary pressures. The local stock market – the second largest in Latin America – was down by 10% in pesos and 14% in dollars for the year in mid-September.

- ***Mixed external performance***
  According to ECLAC, FDI, which had recovered in 2010, fell 18% to $10.6bn in the first half of 2011 compared to the previous year. However, Mexico's strong credit rating allowed the government to borrow more overseas than any other Latin American government. The trade flows of the region's most trade-dependent economy continued to recover from the 2009 downturn, but the debt ratio increased (Tables 5, 6, and 7). Overseas remittances were expected to total over $21bn, about the same as in 2010. In response to these inflows, the peso experienced modest appreciation into September (Table 8), when it lost some strength against the dollar.

- ***Security deteriorated in face of escalating drug-related violence***
  With the spread of criminal violence throughout Mexico – the most recent outbreak was in the Gulf state of Veracruz – and the increasingly grisly nature of the killings, the absence of security was a growing concern among Mexicans and foreign companies operating in Mexico. There were calls during the year for the government to pull back

[3] The symbols for each country indicate the following trends: ▲ business environment improved, ▼ business environment deteriorated, = no significant change since publication of the 2010 report.

from its war against the drug-traffickers, which the government rejected. There were no signs that deteriorating security had significantly deterred foreign investment.

- ***Country geared up for the 2012 presidential election***
  The 2010 congressional elections and 2011 gubernatorial contests, which did not yield positive results for the ruling PAN of President Calderón, suggest that the PRI may win the presidency in 2012. Even if the former ruling party should return to power, it was clear that Mexico had institutionalized a functioning multi-party democratic political system and that there would be no major policy shifts with the possible exception of the war against the drug cartels.

- ***Government pursued a neutral policy bias***
  The Central Bank did not change benchmark interest rates even during the first half of 2011, when inflation seemed to be increasing. Divided control of the executive and legislative branches and the upcoming election put significant policy reform on hold.

- ***Legally protected monopolies***
  By conventional measures, and in spite of the surge in criminal violence, the Mexican legal environment was one of the strongest in Latin America, and it was comparable to other emerging markets (Table 12). The protection of property rights and the ease of starting a business – and especially economic freedom – are stronger in Mexico than in China. However, serious legal obstacles to a more competitive business environment remain. The most important of these include Pemex's constitutionally protected status as a closed public monopoly, a private monopoly in telecommunications, and oligopolistic markets in other sectors. Courts and regulatory agencies issued rulings aimed at opening the telecom market to greater competition, but substantial improvement is still needed.

DR-CAFTA REGION

Although Central America and the Caribbean benefitted from high sugar and coffee prices, the seven economies in this region again recorded the weakest overall performance, with Panama being a notable exception. In the five years of DR-CAFTA, trade between the U.S. and other members – as well as among them – increased significantly. This development increased the region's dependence on the U.S. market. However, the protection accorded FDI by DR-CAFTA resulted in an increase in U.S. investment. Full reintegration of Honduras into the region was also a positive development.

Expansion of the Mexican criminal cartels into Central America continued unabated. At the Central American Security Conference in June, the U.S. and other donors announced that they would increase their aid to help the region improve security. In early October, a U.N. report estimated that Honduras and El Salvador had the highest homicide rates in the world. Guatemala was not far behind. Violence was spreading south to Nicaragua and Costa Rica, where a border dispute disrupted the region early in 2011.

Dominican Republic=: Preparing for the presidential election.

- ***Growth resumed and inflation increased***
  Impressive GDP growth in 2010, which reached 7.8%, gave the Dominican Republic the second highest ten-year annual average for the DR-CAFTA region (Table 2). Growth declined in 2011 while inflation rose in a normally low inflation environment.

- ***Mixed external performance***
  The government continued to implement targets of its IMF Stand-By Loan, but failed to consolidate the fiscal deficit and reduce the deficit in the electrical sector.

- ***Fernández stepping down after two consecutive terms***
  The leading candidates in the contest to replace Fernández are former President Hipólito Mejia of the opposition PRD and Danilo Medina of the governing PLD.

- ***Government agreed to implement unpopular reforms demanded by the IMF***
  In July, a 24-hour strike by protestors unhappy with the government brought the service and transportation sectors to a halt.

- ***Weak legal environment offset dynamic economic performance***

Costa Rica ▼: Political headwinds buffeted President Chinchilla.

- ***Moderate growth and inflation***

- ***Trade and foreign investment increased***
  Strong FDI flows (Table 4) offset the weakest terms of trade of the LABER countries (Table 1). Exports, imports and the current account deficit all increased from 2009 to 2010 (Table 5). With the onset of full membership in DR-CAFTA, exports to the U.S. grew by 24% in 2010 according to the Minister of Foreign Trade, accounting for 36% of all exports. On a per capita basis, Costa Rica had the third highest export sales in Latin America after Uruguay and Mexico. The external debt held steady and decreased as a percentage of GDP (Tables 6 and 7).

- ***Violent crime continued to increase***

- ***President faced challenges on several fronts***
  President Chinchilla suffered setbacks immediately after taking office including: a lack of support from her own party, criticism for an unclear agenda, allegations of corruption in her administration and the growing crime wave. In May, the ad hoc opposition Alliance for Costa Rica assumed leadership of the National Assembly, further complicating the president's task. In July, her approval rating stood at only 26%. She had already replaced five ministers by August 2011 since taking office in 2010.

- ***Government struggled to reign in the fiscal deficit***
  The National Assembly repeatedly frustrated President Chinchilla's call to reform taxes in order to increase revenue and decrease the growing fiscal deficit, already the largest in Latin America as a percentage of GDP (Table 11).

El Salvador=: Criminal violence continued to undermine market friendly environment.

- ***Weak growth, rising inflation***
  El Salvador is the only country of the 18 to have a ten-year annual average GDP under 2% (Table 2).

- ***U.S. presidential visit offered security assistance but no promises on immigration reform***
  El Salvador's bond rating downgrade in late March resulted in a revised outlook from stable to negative because fiscal situation continued to deteriorate and that the country lacked the resources needed to engage in counter-cyclical policy-making.

- ***Highest homicide rate in world (tied with Honduras)***

- ***President Funes finished his first 15 months with high popularity ratings***
  In spite of his country's problems, approval of the president stood at 79% at the end of 2010. The President's popularity reflected his success in implementing social reforms and carving out a centrist stance vis-à-vis the right wing opposition and the radical elements of his own party.

Guatemala=: Escalating violence in election year.

- ***Moderate growth with moderate inflation***

- ***Imports, current account deficit and external debt increased***

- ***Further infiltration of organized crime weakened an already problematic social environment***
  Based on accepted indicators – illiteracy, per capita income, inequality, Human Development Index and poverty – Guatemala was one of the most socially underdeveloped countries in Latin America. It became one of the most violent in recent years with the influx of the Mexican drug cartels and urban gangs.

- ***Security concerns dominated presidential election***
  Otto Peréz Molina, a former general whose campaign symbol was an iron fist, won the most votes in the first round. However, this was not enough to avoid a run-off in November against businessman Manuel Baldizón, who promised to invoke the death penalty more often. Earlier the Supreme Court denied the former wife of President Alvaro Colón a place on the ballot despite her divorce from the president to circumvent the constitutional prohibition against close relatives succeeding the incumbent.

- ***Fiscal deficit increased***
  Weak fiscal position hampered the government's efforts to combat crime and stimulate the economy.

- ***Advances and setbacks in reforming legal environment***
  The Supreme Court's decision to preclude the former first lady from running was a victory for an independent judiciary. There were other small improvements on the judicial front. The UN-established International Commission Against Impunity in Guatemala helped bring former President Alfonso Portillo to trial for diverting public funds, but the supreme tribunal acquitted him on a 2-1 vote. He was, however, scheduled for deportation to the U.S. Drug funds have penetrated and corrupted all elements of government.

Honduras▲: Normalization of politics and foreign relations strengthened a weak environment.

- ***Moderate growth with uptick in inflation***
  Revival of the coffee industry facilitated growth. Honduras, which produces the finer Arabica beans, was on a path to surpass Guatemala as the largest coffee producer in Central America.

- ***Readmitted to the Organization of American States***
  Colombia and Venezuela brokered a deal to allow deposed President Manuel Zelaya and his ministers to return and participate in politics led. This agreement facilitated re-entry into the OAS and the restoration of vital foreign aid funds that had been cut off following the June 2009 coup. The country risk rating was upgraded (Table 8), and in an effort to attract and promote foreign investment, the government hosted "Honduras Open for Business" in May. This event showcased investment opportunities in various sectors (renewable energy, tourism, agribusiness, infrastructure, forestry, textile, maquila and services) and highlighted recently adopted incentives for foreign investors. FDI began to recover in 2010 (Table 4) and continued into 2011.

- ***Violence, poverty and inequality defined social environment***
  Honduras tied El Salvador for the highest homicide rate in world. In addition to the drug and gang related violence, land conflicts turned violent and emphasized the inequalities and polarization of society.

- ***Compromises on both sides allowed for the return of the deposed president***

- ***Law to attract investment; human rights violations***
  Congress passed the Law for the Promotion and Protection of Investment which guarantees capital repatriation, access to foreign currency, national treatment of foreign investors' assets, patent protection, and a ban against the expropriation of land. The murder of journalists and opposition figures continued in spite of heavy external pressure to address the impunity enabling it.

Nicaragua▲: Populist regime delivered social welfare and economic growth.

- ***Moderate economic growth***

- ***Links to both Venezuela and the U.S. paid off***
  Estimates of the value of Venezuelan support put the figure at $400 million a year. For its part, the U.S. was an important trading partner despite President Ortega's anti-American rhetoric. Nicaragua, with the most favorable terms of trade in Central America (Table 1), benefitted from higher coffee prices. FDI, although modest, increased, as did trade (Tables 4 and 5).

- ***Ortega re-elected***
  The longtime Sandinista leader's appeal to the business community, while at the same time maintaining his popularity among poor Nicaraguans, combined with a weak opposition to provide him a victory. A compliant supreme court, filled with Ortega appointees, ruled that he could run for a third term even though constitutional provisions against consecutive terms limit presidents to no more than two terms.

- ***Government pursued mixed policy agenda***
  Venezuelan subsidies funded generous social programs, while market-friendly economic policies appealed to the business community.

- ***Problematic legal environment***
  Weak rule of law, high corruption and weak property rights were especially problematic, while the supreme court ruling allowing the president to run for re-election clearly indicated that the judiciary is far from being independent.

Panama=: Strong economic performance, but unsettled politics.

- ***Growth surged***
  GDP growth of 7.5% in 2010 helped Panama achieve the highest average rate of GDP growth in the region from 2002 through 2010. Growth in 2011 was on track to again exceed 7%. Increased Canal revenue (7.5% of GDP in 2010) generated by more traffic and higher tolls combined with the expansion of the Canal were important determinants of growth. Inflation ticked up but was well under control.

- ***Foreign investment also surged***
  FDI in 2010 was the highest in Central America and exceeded all of the Andean countries, except Peru. In 2011, it equaled almost 9% of GDP. Both exports and imports grew in 2010, as did the current account deficit. External indebtedness increased, producing the fifth highest debt burden (debt/GDP) of the 18 countries.

- ***Declining poverty and unemployment***

- ***Government alliance collapsed***
  Panama's Achilles heel was weak political institutions. The two-party alliance that delivered the presidency to Ricardo Martinelli in 2009 ended when the president fired his foreign minister and heir apparent, Juan Carlos Varela. Martinelli announced that his party would run its own candidate in 2014 and proposed changing the electoral system from a one-round, winner-takes-all system to a two-round arrangement. Aside from reinforcing the president's image as a highly ambitious politician, the maneuvering underlined the personal nature of politics in Panama and introduced an element of uncertainty in the business environment. The finance minister who helped engineer Panama's upgrade to investment grade resigned, and President Martinelli's approval rating dropped 20%.

- ***Fiscal deficit increased***

- ***Tax Information Exchange Agreement with U.S.***
  Washington and the other OECD governments pushed the agreement as a means to increase transparency and to counter Panama's image as a tax haven. Panama had been listed on the OECD's gray list since 2009 for its failure to comply with information exchange requirements determined by the organization. This agreement, combined with over 12 other double taxation treaties negotiated with other countries, successfully fulfilled the requirements necessary to achieve removal from the OECD's gray list. In July 2011, the OECD announced Panama's removal from the list.

ANDEAN SOUTH AMERICA

Several developments weakened unity among the Andean nations. Ecuador threatened to join Venezuela (which left in 2006) in abandoning the Andean Community. These two countries, plus Bolivia, are members of the anti-U.S. ALBA trade bloc. Peru and Colombia, by contrast, have moved closer to the U.S. Both Bolivia and Ecuador restored full diplomatic relations with the U.S. in late 2011. The Andean Community was losing its relevance as a force in intra-regional integration, but intra-regional trade remained strong, and efforts were underway to build a regional electricity grid. Peru, Chile and Colombia took steps to merge their stock markets, and Peru and Colombia entered into a bilateral investment agreement. Strong commodity prices produced improved terms of trade for all five Andean countries in 2010.

Bolivia▲: Outperformed the other populist regimes but environment still problematic.

- ***Sustained growth***
  With the exception of 2009, GDP growth has exceeded 4% every year since 2004 and is projected to continue at this rate in 2011 and 2012. Inflation jumped into double digits in 2011.

- ***Ratings outlook upgraded***
  S&P boosted Bolivia's ratings outlook based on progress in realizing investments in mining, energy and infrastructure. The Economist Intelligence Unit also upgraded Bolivia's country risk rating (Table 8). Prudent management of the commodity boom revenues resulted in current account and primary fiscal surpluses (Tables 5 and 11) and a more manageable debt burden (Table 7). Investors began to take a second look at Bolivia, producing an increase in FDI, which nonetheless remained quite modest given the government's commitment to expand hydrocarbon exploration and production. Uncertain energy supplies caused neighboring countries to reduce their dependence on Bolivian natural gas exports. La Paz resumed full diplomatic relations with Washington in November, but did not allow the U.S Drug Enforcement Administration back in the country.

- ***Protestors forced government to back down***
  In December 2010 President Morales reversed his decision to remove costly government subsidies on imported gasoline and diesel fuel following widespread – sometimes violent – protests and a national transportation strike. Throughout 2011 indigenous groups periodically took to the street to challenge the president who promised to empower Bolivia's long oppressed native peoples. In late September, clashes between indigenous

protestors and the police forced President Morales to suspend construction of a road that would connect Brazil to Pacific ports in Peru and Chile. The Brazilian Development Bank (BNDES) was financing the road.

- ***While still fully in control, the president's popularity declined***

- ***Pension system changed***
  A law passed in December converted the individual retirement investment account arrangement adopted in the 1990s to a mixed system with individual accounts managed by a government agency. It also expanded coverage and lowered the retirement age. Critics feared that the new system would be more susceptible to political pressure and reduce private investment capital.

- ***Private media came under greater government control***
  . In July the Legislative Assembly passed a law that would transfer 2/3 of electronic media outlets to the government, indigenous communities and social movements.

Colombia▲: Strong performance on all fronts strengthened the environment.

- ***Growth with low inflation continued***

- ***Rating agencies awarded investment grade rating***
  Both S&P and Moody's upgraded Colombia's investment rating citing the country's sustained growth, market reforms, improved fiscal situation and progress in strengthening security (the homicide rate is nearly half of what it was in 2002). ECLAC reported that FDI during the first half of 2011 was up 91% (to $7,008m) over the same six months a year earlier. Within the region, President Santos worked to restore relations with neighboring Venezuela and Ecuador, both important trading partners. The U.S. Congress finally approved the FTA with Colombia in October.

- ***Poverty declined but high inequality persisted***
  The government announced a plan to fight poverty based on the Multidimensional Poverty Index (MPI). By both the traditional monetary measurement and the MPI, poverty was declining at a significant rate. However, Colombia had the highest inequality in the region (see Gini Index of Income Inequality in Table 9), and it has not declined in recent years. Government forces killed the FARC commander in early November, inflicting another serious setback on the guerrillas.

- ***President Santos completed a successful first year in office***
  While maintaining his predecessor's campaign to improve security, Santos undertook a series of needed domestic reforms, which won Congressional approval. His approval rating registered above 70% throughout the year. Local elections were a victory for President Santos and were a setback for traditional parties. A former leftist rebel was elected mayor of Bogotá as an anti-corruption crusader.

- ***Policy-makers hold course***
  After raising interest rates early in the year to head off inflation, the Central Bank held the rate during the second half, even in the face of the European downturn. In the past several years, the government had adopted pro-investment policies to attract private capital, foreign and domestic, to the energy sector.

- ***Congress passed important reforms for the legal environment***
  The legislature approved a constitutional reform of commodity royalty treatment, a fiscal deficit rule law, a reform to guarantee macroeconomic stability and several measures to compensate victims of Colombia's civil violence, including the return of land to peasants who were displaced during the war.

Ecuador=: Some improvements in a problematic environment.

- ***Moderate growth with low inflation***
  Increased oil export earnings financed a big increase in government spending, which boosted job creation and consumer demand.

- ***Improved external performance***
  Although Ecuador continued to have limited access to international financing because of its 2008 default, and even though FDI remained weak, there were several positive developments. Fitch's raised Ecuador's credit rating to B- (the Economist Intelligence Unit kept the country risk rating at CCC, Table 8) based on improved oil prices and increased bilateral credit, which in February included China's renewal of a $1bn loan-for-oil agreement. In August, the government announced that it would test the appetite for Ecuador's debt on credit markets by holding it first international bond sale since the 2008 default. In October, the U.S. and Ecuador renewed full diplomatic relations, which were broken in April. By reassigning his Minister of Finance to be the new ambassador to the U.S., President Correa signaled that he wanted to improve relations, not only with Washington but also with foreign investors. This is because FDI fell again in 2010 after taking a big drop in 2009 (Table 4).

- ***Government attacked poverty on multiple fronts***

- ***President Correa began preparing for the January 2013 election***

- ***Heterodox policy mix***
  In November 2010, the government concluded an agreement with most (but not all) of the foreign energy companies to continue operating under service contracts rather than profit-sharing arrangements in place at that time. The objective was to increase the government's share of oil revenues and attract more foreign investment, which had virtually stopped flowing into the oil sector, to boost exploration and production after a decline. In renegotiating their contracts, the companies agreed to invest $1.2bn over the next four years, but some observers argued the new arrangement would not generate investment beyond this initial commitment.

- ***Threats to freedom of the press***
  In May voters narrowly approved a complex constitutional referendum that broadened the president's control over the judicial branch and the media, some members of whom were critics of the Correa administration. The referendum also banned private financial institutions and private media companies from owning or holding shares outside their respective sectors. In July, a judge sentenced three executives and a columnist of a major Guayaquil newspaper to jail and fined them and the paper $42 million for libeling President Correa. Overall Ecuador has one of the weakest, least competitive legal environments in Latin America (Table 12).

Peru▼▲: Smooth presidential transition assured continuity.

- ***Strong growth with low inflation***
  From 2002 through 2010, Peru's GDP growth averaged 6.3% a year, second only to Panama's. In 2010 it was the highest of the 18 countries, and although it slowed somewhat in 2011, the outlook was still promising (Table 2). Favorable terms of trade and a growing domestic market were the major drivers. Despite high growth, inflation was the lowest of the 18 LABER economies (Table 3).

- ***New law requires mining and energy companies to consult with local communities***
  In spite of this measure, protests continued to delay major projects. The percentage of the population Peruvians living in poverty continued to decline.

- ***Maintained favorable international profile***
  After Ollanta Humala's victory in the June run-off, stocks and bonds fell, but investors quickly returned to Peru. At the end of August, S &P raised Peru's investment grade rating one notch, putting it ahead of Brazil.

- ***Initial concern over the Humala administration dissipated***
  Once in office, the president – a former military officer who ran as populist in the 2006 presidential contest – delivered on his campaign promise to pattern this government after Lula's moderate left-of-center model in Brazil with top appointees (he re-appointed the incumbent central bank president) and early policy pronouncements . The president's party did not win a majority in Congress.

- ***Policies to improve social welfare***
  While the president made it clear that he would adhere to the market-friendly economic policies of his predecessors, he also promised to address the social divide that had plagued previous governments. In fulfillment of this pledge, he increased the minimum wage, expanded pension coverage to all Peruvians over age 65, and broadened the conditional cash-transfer program for the poor. He also promised to expand education and health care. The president indicated that he would pay for this broad array of social programs by imposing a windfall tax on mining companies. In both the monetary and fiscal arenas, after taking steps early in the year to head off inflation, the government shifted to a neutral stance indicating that it was prepared to lower interest rates and adopt stimulus measures as the world economic outlook declined in the third quarter.

- ***Moves against policy corruption***
  In late October, the president fired two-thirds of the most senior officers in an effort to restore confidence in the country's police forces.

Venezuela▼: President's health took center stage.

- ***Growth resumed but high inflation persisted***
  After a two-year recession, the economy resumed growing in 2011, albeit at a low rate (Table 2). In spite of widespread price controls, inflation continued to surge, reaching 26.5% in September, the highest of the 78 countries tracked by Bloomberg. Supply bottlenecks – forcing the government to raise price caps to avoid shortages – were the main cause of inflation.

- ***Oil exports helped offset an otherwise weak external performance***
  High oil prices gave Venezuela very favorable terms of trade (Table 1) and oil exports (95% of all exports) generated a large current account surplus (in spite of declining oil production over the decade, Table 5). The $32bn oil-for-credit agreement signed with China in 2007 supplied the administration with off-budget funds estimated to be worth approximately 30% of the formal budget. Despite its vast oil reserves and the acknowledged need for more investment capital to increase production, there was a net outflow of FDI again in 2010 (Table 4). In early January the government devalued the bolívar and continued to ration dollars, which were in short supply. Late in 2011 the government agreed to a $600 million settlement with the Mexican company CEMEX, which had been expropriated when the cement industry was nationalized. There remained more than 20 pending cases submitted by foreign companies before the International Center for Settlement of Investment Disputes. The diplomatic dispute between Washington and Caracas flared up again.

- ***Poverty down but criminal violence continued unabated***
  Since per capita income actually declined (Table 9), the government's social programs were the key to lower rates of poverty.

- ***Health crisis unsettled politics***
  The year in politics began with the president and outgoing legislature enacting measures designed to weaken the authority of the incoming National Assembly in which the opposition had enough seats to override presidential vetoes. In June, President Chávez announced that he was diagnosed with cancer and would go to Cuba for treatment. Although the president's office refused to reveal the nature of the cancer, it was clear from the initial three-week stay and subsequent return for additional treatment that the illness was serious, perhaps life-threatening. Chávez's uncertain condition raised questions about succession and the course of the 2012 election. The pool of possible successors remains unknown given that Chávez has dominated the political landscape since taking power in 1999 and neither designated a successor nor created institutions to do so. As for the election, Chávez insisted he would run for a third six-year term. The Inter-American Court of Human Rights ruled a potential opposition candidate eligible to run, and the opposition was committed to uniting behind a single candidate.

- ***Socialization of economy deepened***
  Windfall tax rates of oil increased significantly. In August, the president decreed that the government would set "fair prices" across the economy in an attempt to control inflation. The government further announced that it was nationalizing the gold industry. Venezuela has the largest gold reserves in Latin America. In November, the government issued a law requiring landlords to sell properties to renters with more than 20 years occupancy. The government announced a substantial increase in spending for 2012 in the run-up to the election.

- ***Highly problematic legal environment***
  In 2011 Venezuela ranked worst on rule of law, corruption, economic freedom, protection of property rights and days to start a business of the 18 LABER countries (Table 12). Out of 142 countries, it ranked 124th in global competitiveness. These criteria demonstrate that it was a risky economy with which to do business.

MERCOSUR REGION

MERCOSUR celebrated its twentieth anniversary in 2011. While intra-regional trade increased significantly, progress toward creating a genuine customs union, much less a full common market, has been less successful. Brazil and Argentina were the big winners. For Uruguay and Paraguay the payoffs of membership have been disappointing. Benefits of full Venezuelan membership would also likely accrue to Brazil and Argentina. Paraguay continued to press Brazil and Argentina for recognition of its sovereign right to export excess energy generated from their joint hydro-electric dams.

The South American bloc, UNASUR, removed visa requirements for citizens of the 12 member states when traveling to other countries within the block, but made only slow progress toward creating a single market by reducing trade barriers. However, finance ministers pledged to continue dollarizing intraregional trade to increase information sharing. It was considering a $10-$20bn emergency fund to cushion the effects of a global slowdown.

Argentina▲: Robust economy performance gave President Fernández easy re-election.

- ***Strong growth with high inflation***
  Since 2003 – with the exception of 2009 – GDP growth averaged over 8%, per year, by far the best of any of the major Latin American markets. Even against slowdowns in the rest of the region, the fourth quarter forecasts for Argentina predicted growth would again exceed 8%. Independent estimates put inflation over 20%, second highest to Venezuela in the region. In mid-September the local stock market was down 22% in pesos (29% in dollars) for the year.

- ***International investors remained leery***
  Investors had yet to re-enter Argentina in a way commensurate with its size and current economic boom. In 2010 it received less FDI than Chile, a country half its size. According to ECLAC, FDI declined 30% during the first half of 2011. Argentina had yet to reach an agreement with its holdout bondholders in order to return to good standing in the international financial community. According to the Economist Intelligence Unit, Argentina had the lowest Sovereign Risk rating of the 18 LABER economies (Table 8). Strong terms of trade favored Argentina's agricultural exports and contributed to the current account surplus (Table 5). The Central Bank pursed a managed float exchange regime to prevent the peso from appreciating (Table 8).

- ***Unemployment, poverty and inequality continued to decline***
  Sustained growth generated new jobs and increased government revenue for infrastructure development, low-cost public housing, and the popular monthly Universal Child Allowance. An important consequence of the improved social environment was growth in consumer spending.

- ***Peronist party won a congressional majority to support president second term***

- ***Government pursued heterodox policy agenda***
  While nominally a free-market economy, heavy government intervention persisted in the form of export taxes, price controls, social programs, subsidies and public works. Government spending amounted to 25% of GDP. In October the government enacted a series of controls on converting pesos to dollars to deter capital flight, which was calculated to total $9.8bn in the first half of 2011.

- ***Government proposed limiting the foreign ownership of land***
  Chinese purchases of large tracts of agricultural land provoked Congress to consider a bill to limit land ownership by foreigners.

Brazil▼: Challenging year for new administration.

- ***Economy cooled but inflation persisted***
  Following Brazil's strong recovery in 2010, forecasts projected slower growth in 2011. GDP growth fell during the year even more than expected, especially in Q4, when the economy began to feel the effects of the global slowdown. Hurt by the strong real, local

manufacturing output declined for three consecutive quarters. Retail sales dropped in August. By November the forecast, which had begun the year at nearly 5%, hovered around 3% Inflation surged through the first three quarters – fueled by the expansion of consumer credit – and then moderated. In July the Bovespa became the first emerging stock market to fall into bear market range and remained off nearly 20% during the year.

- ***Strong currency and international uncertainty complicated external performance***
  The Brazilian real became one of the most overvalued currencies in the world. It funded a flood of manufactured imports and Brazilian shopping sprees abroad, both of which contributed to a widening current account deficit (Table 5). FDI, which jumped 157% in the first half of 2011 compared to 2010, according to ECLAC, helped boost the real. To slow currency appreciation, the Central Bank periodically sold dollars (and bought them when the real slipped in September), while the administration imposed a taxes on short-term capital flows into the country and on purchases abroad. It also levied tariffs on some Chinese steel imports in response to pressure from local producers. In an April visit to China, President Rousseff urged Brazil's leading trading partner to work for more balanced trade and to allow China's currency to appreciate more rapidly, adjustments that would help reduce the flood of Chinese imports. In neighboring countries, Brazilian companies encountered local resistance to large projects, often financed by the government's National Economic and Social Development Bank.

- ***Social transformation continued***
  Falling fertility rates and the growth of evangelical Protestantism have accompanied the decline in poverty and growth of the middle class. Economic growth, the *bolsa família* income transfer program, public works spending, and increases in the minimum wage have even improved living standards in the Northeast. Private companies were also investing in this previously impoverished region. While public security registered significant advancement in other parts of Brazil – the murder rate dropped between 1999 and 2009 – drug-related crime was on the rise in the Northeast.

- ***President dealt with unruly political environment***
  Allegations of corruption forced the resignation of seven cabinet-level officials. Although this gave President Rousseff the opportunity to appoint her own people, it reinforced the perception that Brazilian politics were corrupt. It also underlined the difficulty of governing a country with a fragmented party system impervious to reform. The president must depend on a 15-party congressional coalition, doling out cabinet posts among the member parties.

- ***Policymakers struggled to balance inflation and growth***
  When she took office, President Rousseff promised to maintain the economic policies of her predecessor, for whom she was a close advisor. She adhered to this commitment in the advisors she chose and the policies she pursued in her first year. The policy environment proved to be quite challenging. In the first half of the year, fiscal and monetary policies targeted inflation. Raising the benchmark interest rate early in the year to slow inflation also served to attracted foreign capital looking for higher returns, which contributed to appreciation of the real. In August, the Central Bank lowered the

benchmark interest rate, after raising it in its five previous meetings, arguing that inflation was less of a threat than slowing growth. Later that month inflation accelerated to 7.33%, well beyond the target, but the bank kept reducing the interest rate. In early December, the administration added a stimulus package to spur the economy. Late in 2011 the administration submitted a bill to Congress to create a private pension fund for public employees, which would reduce the pension deficit and complete the reform originally enacted in 2003.

- ***Changes in regulation of oil exploration remain stalled in Congress***
  Congress passed legislation making Petrobras the sole operator in the huge pre-salt fields, but failed to resolve distribution of the pre-salt revenues to the states. The president promised to push ahead on reforming Brazil's complicated tax codes, which impose a cumulative tax burden equal to 35% of GDP, but nothing happened. The same was true of her commitment to labor reform. Excessive regulation and bureaucratic hurdles continued to burden the business environment. According to the World Bank's "Doing Business 2011," it takes 120 days to start a business in Brazil compared to 22 in Chile and 38 in China (Table 12). In spite of its rich resource endowment and recent progress, Brazil was ranked the 53rd most competitive of 142 countries in the world. China ranked 26th.

Chile=: Prolonged social protests raised questions about strong environment.

- ***Strong economic performance***
  During the first three-quarters of 2011, growth exceeded estimates. When it showed signs of moderating in Q4, so did inflationary pressures. GDP growth for the year was still expected to be stronger than forecasted at the beginning of 2011, while inflation appeared well under control.

- ***Fluctuating copper prices had significant impact***
  As the world's largest exporter, Chile benefitted from strong copper prices up to Q4 when prices declined in response to growing global uncertainty. The peso-dollar exchange rate, which surged during the year because of export earnings and FDI flows, jumped from 463 on September 1 (Table 8) to over 530 in late September. Chilean bond spreads also widened, and the stock market dropped. However, all three recovered some of their losses.

- ***Student protests expanded***
  Demonstrations sparked by university students calling for sweeping educational reforms grew into a general movement challenging the Chilean model. This movement questioned the persistence of high rates of social inequality in spite of sustained economic growth, declining poverty and low unemployment.

- ***President's popularity plunged***
  In the face of the spreading student demonstrations, President Piñera's approval rating, which had soared following the successful rescue of mine workers and earthquake recovery effort in 2010, fell below 30% in August. This was the lowest approval level of

any president since the country's return to democracy. He reshuffled his cabinet on two occasions, replacing technocrats with experienced politicians, to reverse the decline in his popularity. A larger political question concerned removal of the institutional obstacles inherited from the military regime.

- ***Central Bank sought balance in monetary policy***
  Bank authorities began raising the benchmark interest rate in June 2010 to 5.25% in June 2011 to combat growing price pressures, but as the global outlook turned negative the bank shifted to a neutral bias.

- ***Strong legal environment***
  Reviewing the indicators in Table 12, it is clear why Chile remained a favored investment destination in spite of its small size. Of the 18 countries, it had the strongest rule of law, the lowest level of perceived level of corruption, the most open economy, and the strongest protection of property rights, to rank 31 out of 142 economies in global competitiveness. Euromoney Magazine considered Chile the safest place to invest in Latin America.

Paraguay▲: Environment continued to improve.

- ***Impressive economic performance***
  Buoyed by surging soy exports and growing domestic consumption, its GDP growth of 15% in 2010 was one of highest in world. Although it slowed in 2011, growth remained healthy but inflation increased.

- ***Growing exports and FDI put pressure on currency***
  Between September 2010 and September 2011, the Guarani appreciated over 18% against the dollar (Table 8). President Lugo pressed Argentina and Brazil for greater control of hydroelectric resources and for an integrated energy market.

- ***Growing middle class in least developed MERCOSUR economy***

***Uruguay*▲**: Another strong performance.

- ***Sustained growth with moderate inflation***
  Although GDP growth dropped from an impressive 8.5% in 2010 to 5% in 2011, it still exceeded the ten-year average. Inflationary pressures, which grew in the first half of 2011, moderated in the second half as the economic expansion slowed.

- ***Uruguay took advantage of a favorable external environment***
  Favorable terms of trade, easy credit and an attractive domestic environment facilitated an increase in trade flows (although the current account deficit grew). FDI regained the levels reached before the global financial crisis. Since 2003, the country's debt-to-GDP ratio dropped from 96.0 to 44.2 (Table 7), although it was up slightly in 2010. As a result of this dynamic external performance, the peso had the highest appreciation in the region up to early September (Table 8), when it began to soften.

- ***Strong social environment***
  The social indicators in Table 9 show that Uruguay ranked near the top on literacy, the Human Development Index and population-in-poverty ratio of the 18 LABER countries. Economic growth translated into lower unemployment.

- ***Policymakers sought balance***
  Although the government maintained a small primary budget surplus (Table 11), some observers questioned whether it had acquired sufficient fiscal reserves for an effective countercyclical policy response in the face of a global economic downturn. As in other countries, the Central Bank struggled to control inflation and appreciation of the peso while anticipating slower growth.

- ***Strong legal environment***
  Uruguay had one of the most business friendly legal environments in the Latin America. It ranked near the top in terms of the rule of law, the perception of corruption, economic freedom, protection of property rights, and global competitiveness in 2011 (Table 12). Congress passed a law that effectively reversed the amnesty for members of the former military government who were charged with human rights violations.

III. OUTLOOK

OUTLOOK FOR THE REGION

Uncertainty in the global economy made it difficult to forecast the outlook for Latin America in 2012. However, it is clear that economic growth will moderate, and some countries are better equipped to cope with the downturn than others. The outlook for the region and its 18 largest economies as 2011 drew to a close are summarized in this conclusion. Each component of the regional business environment in each country is classified to indicate whether it was likely to improve (▲), deteriorate (▼), or remain the same (=). A question mark (?) indicates that the outlook was uncertain. Furthermore, key variables to monitor in the coming 12 months have been identified.

External Environment

- ***Global ▼***
  The global economy was headed for a downturn. The only question was how severe. If restricted to the U.S. and Europe, the impact on Latin America will be less severe than if it spreads to China and affects global financial markets. The latter scenario would produce a "triple shock:" declining trade flows, lower commodity prices and risk adverse investment behavior. As the European debt crisis deepened in mid-September, the IMF revised its global growth forecasts downward for both 2011 and 2012. Latin American currencies lost value, bond spreads widened, and stock markets dropped. Commodity futures softened (copper dropped to a low for the year).
  Keys: Breadth and depth of global downturn; commodity prices.

Domestic Environment

- ***Economic and Financial Performance▼***
  The consensus forecast expected Latin American growth to dip in 2012. In early October, Moody's projected growth to drop below 4%, which contrasts with 5% during the first half of 2011. Because of stronger dependence on the U.S., Mexico, Central America and the Caribbean were expected to take a bigger dip than the commodity exporting economies of South America.
  Keys: U.S. and European recovery; Chinese growth rate

- ***Social Environment*▼**
  The impact of slower growth on the social environment depends on how deep the downturn is. Minimally the pace in reducing poverty and inequality would be difficult to sustain. However, some countries were better prepared to implement counter-cyclical measures and provide social relief than others. In Mexico and Central America the uncertainty is whether governments would be able to turn – or at least hold back – the tide of criminal violence that has surged through the region in recent years.
  Keys: Economic growth; war against drug-traffickers

- ***Political Environment*=**
  The final elections of 2011 ended in a smooth re-election of the incumbents – Daniel Ortega in Nicaragua and Cristina Fernández de Kirchner in Argentina. The question surrounding these outcomes was how the winners would translate their mandate into policy, given that both have populist leanings. Although opposition candidates were favored in Mexico and the Dominican Republic for the 2012 elections, the outcomes were not expected to produce significant changes in their respective business environments. The electoral contest with the greatest potential to provoke controversy and change was in Venezuela.
  Keys: Elections in the Dominican Republic, Mexico and Venezuela

- ***Policy Environment*=**
  As the global environment deteriorated, governments in the region prepared to implement countercyclical fiscal and monetary policy measures. The commodity exporters of South America with strong surpluses were in the best shape.
  Key: Fiscal and current account balances

- ***Legal Environment***=

COUNTRY OUTLOOKS

This section divides the 18 countries into three categories according to the overall character of their business environments – attractive, problematic or mixed – in 2011, and then assesses the outlook for each through 2012. Two countries moved up a category in 2011 – Honduras from problematic to mixed and Colombia from mixed to attractive. None were downgraded.

Attractive Environments (9)

These countries possess the most attractive business environments in Latin America. Chile stands out because of its strong institutions, rule of law, stable politics, market-friendly policies, and 25 years of sustained economic growth. Brazil commands investor attention because successive administrations have given the region's largest economy (seventh largest in the world) the macroeconomic stability needed to achieve and sustain rapid growth. Mexico, Latin America's second largest economy, has achieved economic and political stability, but its growth is limited by overdependence on the U.S. The Costa Rican and Uruguayan environments feature strong institutions and sustained growth, but their economies are small. The Dominican Republic has a better record of growth, but weaker institutions. Because of recent growth spurts, Peru and Panama gained international attention. However, the absence of institutionalized centrist politics in Peru, and weak institutions in Panama, cause question the sustainability of their performances. The ability of the government to re-establish security throughout the country provided the foundation necessary for the economic renaissance of Colombia.

- ***Mexico*▼▲**
  The unexpectedly strong rebound from the 2009 crisis and continued growth against the sluggish U.S. economy and escalating criminal violence enhanced the credibility of the business environment. In addition to uncertainty in the global environment, the July presidential election clouded the outlook for 2012. Should the PRI candidate who is currently favored to win succeed, the former ruling party would return to power after 12 years in the opposition, which suggests the possibility for a longer transition.
  Keys: 2012 Presidential election; policy agenda of new administration

- ***Dominican Republic?***
  In July, after the two main parties nominated their candidates, the polls deemed the election too close to call, which suggested a lack of enthusiasm for either. The new president will have to deal with a number of difficult issues left unresolved by the Fernández government.
  Keys: May election; oil prices

- ***Costa Rica=***
  With a strong democratic tradition and one of the strongest legal environments in Latin America (Table 12), Costa Rica remains an attractive place to do business despite modest economic growth, an increasingly troublesome crime problem, and the inability to pass needed structural reforms. With the executive and legislative branches again at loggerheads, the outlook for a breakthrough in 2012 is not encouraging.
  Keys: Executive-legislative relations; fiscal reform

- ***Panama=***
  Officials promoted Panama as becoming the Singapore of Latin America once the expanded canal opens in 1914. In the meantime, construction and increased Canal revenues will keep the economy humming. The IMF forecasts projected growth to be above 6% over the next five years. While Panama is one of the more market friendly economies in the region, its political institutions lacked the strength and transparency of those in Singapore.
  Key: Executive-legislative relations.

- ***Colombia▲***
  Colombia has achieved an impressive turnaround. In his two terms, President Uribe pulled the country back from near capitulation to terrorism and stabilized the economy. In his first year in office, President Santos consolidated the security gains and made advances in other important areas, including foreign relations.
  Keys: Military campaign against FARC combined with work toward a political solution and efforts to reduce the structural causes of the conflict.

- ***Peru▲***
  Under Presidents Toledo and García, the Peruvian business environment became one of the most dynamic in Latin America. President Humala – not the choice of the business community or of international investors – has embraced the economic policies of his predecessors. He is targeting social spending as a high priority during his five-year term with broad public support. Peru has the policy tools, fiscal resources and political will to counter-act the impact of a worsening global environment.
  Key: Progress in reducing social inequality; executive-legislative relations.

- ***Brazil***
  The policy conundrum of stimulating growth while holding inflation in check is likely to continue in 2012. In early December, the government reported that the economy had contracted in the third quarter for the first time since the first quarter of 2009, yet inflation increased in November. These contradictory trends prompted the Central Bank to stress that it would enact only moderate interest rate reductions. More bad political news came in the resignation of another minister who faced corruption charges. President Rousseff must stabilize and promote confidence in the government, beginning with the challenge of sorting out her cabinet.
  Keys: Decisive presidential leadership; coherent economic policies

- ***Chile?***
  A global slowdown with falling copper prices would negatively affect the country, but Chile is relatively well equipped to implement a comprehensive countercyclical monetary and fiscal response, as it did in 2008-09. However, a degree of uncertainty hangs over the social and political environments. Tangible steps to reform education and reduce inequality would strengthen the Chile and enhance it as a model for the rest of Latin America. Failure would portend continuing troubles for President Piñera regardless of his economic successes.
  Keys: Copper prices; progress on reforming the educational system

- ***Uruguay=***
  Solid economic policies, a stable government, as well as reduced dependence on the problematic Argentine economy and growing ties with Brazil put Uruguay on the path to institutional-grade credit rating, which it lost in 2006. In late September, Bloomberg reported that Uruguay's standing on several financial risk measures had improved in relation to several other emerging markets that currently had investment-grade rating.
  Key: Performance of global economy and economies of Brazil and Argentina

Problematic Environments (4)

Three features make the business environments of these four countries problematic for private investors: 1) populist policy agendas that combine heterodox macroeconomic policies with deepening state control of the economy; 2) accumulation of power in the hands of presidents, who resist giving up office, at the expense of the other branches of government and the political opposition; and 3) weak rule of law, high rates of corruption and low economic freedom that undermine their legal environments. Of the four, the risks are highest in Venezuela.

- ***Nicaragua=***
  On the eve of the election, the only uncertainties were the margin of Ortega's victory, whether his party would win a majority in the National Assembly and whether the U.S. and the E.U. would judge the election to be free of fraud. Once the margin of his victory was clear, the question became would he use his super-majority in the Assembly to push to the left or would he continue along a path acceptable to the business community?
  Key: International response to Ortega victory

- ***Venezuela?***
  There are serious questions hanging over the business environment as the country enters an election year. Although President Chávez insists that he was free of cancer, the government-imposed secrecy about his illness generates doubt. Then there is the question of who would succeed him if he could not run. While it looks like the opposition will unite behind one presidential candidate, it is not clear if their nominee would be allowed to win or take office.
  Keys: President Chávez's health; October election

- ***Ecuador=***
  One thing seems certain: President Correa will open government coffers to promote his re-election to a third term. Less certain was whether foreign investors would return to the energy sector.
  Keys: Oil prices; election campaign

- ***Bolivia=***
  In spite of rich natural resources and the considerable economic and social progress under the Morales administration, the business environment remained risky. It was dragged down by weak rule of law, high corruption, heavy state intervention, and weak property rights. The problematic scenario seemed unlikely to change.
  Keys: Coming to grips with protests against large scale development projects

Mixed Environments (5)

Although the three Central American countries in the mixed category feature market-friendly economic policies, high criminal violence and over-dependence on the U.S. weaken their business environments. In South America, Argentina, the most important country in the mixed category, benefits from high demand on global markets for its agricultural exports, but suffers from a confusing policy agenda and a lack of access to international credit markets. Paraguay, the least developed of the five, has made the most progress in recent years.

- ***El Salvador=***
  Ongoing threats to security, tepid growth and deteriorating external and fiscal accounts continue to hurt the environment. There is little reason to expect significant improvements in resolving any of these problems. Given heavy reliance on the U.S. should the U.S. economy slip into recession, the consequences for El Salvador would be serious.
  Key: Fight against crime; U.S. recovery; congressional elections

- ***Guatemala=***
  The most pressing challenge facing President-elect Otto Pérez Molina, who takes office in early 2012, will be to make progress in slowing the violent crime wave that has made Guatemala one of the most lawless, dangerous countries in the world. Furthermore, he must do so without resorting to the widespread violation of human rights that occurred during the 36-year civil war. The Guatemalan state is ill-equipped to take on a heavily armed enemy.
  Keys: Actions of new administration; battle against drug-related violence; U.S. recovery

- ***Honduras=***
  With its full re-integration into the Central American region and the Inter-American system, the business environment again becomes comparable those of Guatemala and El Salvador. In addition to the challenge facing it neighbors, Honduras has to repair the wounds inflicted by the 2009 coup.
  Keys: Fight against drug-related violence; deepening of political reconciliation; U.S. recovery

- ***Argentina=***
  Defying the experts, Argentina made a remarkable economic recovery from the 2001 default, which keeps it locked it out of international financial markets. Given her success, there was little reason for President Fernández to significantly deviate from her mixed policy agenda as long as commodity prices remain strong. Discovery of large shale oil reserves add a potentially valuable commodity to Argentina's export portfolio. However, the measures adopted in October to stem capital flight suggest that the government may finally have to reach a settlement with its creditors. It may also have to decrease subsidies to avert a fiscal crisis.
  Keys: Global commodity prices; fiscal deficit

- ***Paraguay =***
  Paraguay should continue to make the progress of recent years that gradually strengthened its business environment.
  Keys: Brazil and Argentina; soy prices

TABLES

Table 1

TERMS OF TRADE, 2002-2010

(2005=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [1]
NAFTA REGION									
Mexico	94.5	95.4	98.1	100.0	100.5	101.4	102.2	99.0	101.8
DR-CAFTA COUNTRIES									
Dominican Republic	106.0	102.2	101.0	100.0	99.0	102.3	97.7	105.7	101.8
Costa Rica	109.7	108.1	104.0	100.0	97.1	96.1	92.5	95.6	91.8
El Salvador	105.0	101.0	100.0	100.0	98.7	97.7	95.0	98.1	94.4
Guatemala	104.9	101.9	100.9	100.0	98.1	96.3	93.8	101.8	101.3
Honduras	105.5	100.9	100.0	100.0	95.4	93.6	87.9	94.0	96.6
Nicaragua	106.9	103.3	101.4	100.0	97.6	96.6	92.4	101.3	102.2
Panama	108.7	103.9	101.9	100.0	97.1	96.2	91.8	96.3	94.4
ANDEAN SOUTH AMERICA									
Bolivia	86.0	88.1	93.0	100.0	125.0	127.0	128.7	124.6	140.9
Colombia	83.3	85.8	92.2	100.0	103.8	112.1	124.4	107.0	121.0
Ecuador	84.8	87.7	89.3	100.0	107.3	110.3	121.1	107.2	118.0
Peru	82.4	85.6	93.2	100.0	127.3	132.0	114.4	108.1	127.7
Venezuela	87.6	98.7	118.1	100.0	184.4	202.1	249.5	181.7	216.3
MERCOUSUR REGION									
Argentina	92.4	100.3	102.2	100.0	106.0	110.0	124.6	118.9	118.4
Brazil	99.2	97.8	98.7	100.0	105.3	107.5	111.3	108.7	126.1
Chile	69.5	73.5	89.3	100.0	131.1	135.6	117.9	119.3	146.0
Paraguay	99.2	104.2	107.1	100.0	98.1	102.7	110.2	107.8	107.8
Uruguay	113.1	114.0	110.1	100.0	97.6	97.8	103.7	106.8	110.2
LATIN AMERICA AND CARIBBEAN	88.9	91.0	95.3	100.0	106.7	109.6	113.0	106.7	115.3

SOURCE: *ECLAC, Economic Survey of Latin America & the Caribbean 2010-2011*

[1] Preliminary figures

Table 2

GDP GROWTH, 2002-2012

(Percentage Change)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [1]	Average 2002-2010	2011 [1]	2012 [1]
NAFTA REGION												
Mexico	0.8	1.4	4.1	3.3	5.1	3.4	1.5	-6.1	5.4	2.1	3.5	4.0
DR-CAFTA COUNTRIES												
Dominican Republic	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5	7.8	5.8	5.0	4.5
Costa Rica	2.9	6.4	4.3	5.9	8.8	7.9	2.7	-1.3	4.2	4.6	3.0	3.5
El Salvador	2.3	2.3	1.9	3.6	3.9	3.8	1.3	-3.1	1.4	1.9	2.0	2.5
Guatemala	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.8	3.5	3.0	3.5
Honduras	3.8	4.5	6.2	6.1	6.6	6.2	4.2	-2.1	2.8	4.3	2.0	3.0
Nicaragua	0.8	2.5	5.3	4.3	4.2	3.6	2.8	-1.5	4.5	2.9	3.0	4.0
Panama	2.2	4.2	7.5	7.2	8.5	12.1	10.1	3.2	7.5	7.0	7.5	6.0
ANDEAN SOUTH AMERICA												
Bolivia	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4	4.1	4.1	4.5	4.0
Colombia	2.5	3.9	5.3	4.7	6.7	6.9	3.5	1.5	4.3	4.4	4.0	4.5
Ecuador	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4	3.6	4.4	3.5	4.0
Peru	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9	8.8	6.3	6.0	5.5
Venezuela	-8.9	-7.8	18.3	10.3	9.9	8.8	4.2	-3.3	-1.4	3.3	2.0	3.5
MERCOSUR REGION												
Argentina	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9	9.2	5.6	4.8	4.5
Brazil	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.6	7.5	3.9	4.6	4.0
Chile	2.2	3.9	6.0	5.6	4.6	4.6	3.7	-1.7	5.2	3.8	6.0	4.5
Paraguay	0.0	3.8	4.1	2.9	4.3	6.8	5.8	-3.8	15.0	4.3	4.0	4.0
Uruguay	-11.0	2.2	11.8	6.6	4.3	7.3	8.6	2.6	8.5	4.5	5.0	4.5
LATIN AMERICA AND CARIBBEAN	0.5	1.8	5.9	4.6	5.6	5.6	4.0	-2.1	5.9	3.5	4.2	4.1

SOURCE: ECLAC, *Economic Survey of Latin America and the Caribbean 2010-2011*

[1] Preliminary figures

Table 3

ANNUAL INFLATION, 2002-2011

(Percentage variation in CPI, December through December)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [1]
NAFTA REGION										
Mexico	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	4.4	3.2
DR-CAFTA COUNTRIES										
Dominican Republic	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.7	6.3	8.0
Costa Rica	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0	5.8	4.8
El Salvador	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2	2.1	6.7
Guatemala	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4	6.4
Honduras	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	6.5	7.7
Nicaragua	4.0	6.6	8.9	9.7	10.2	16.2	12.7	1.8	9.1	8.7
Panama	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9	4.9	6.4
ANDEAN SOUTH AMERICA										
Bolivia	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3	7.2	11.3
Colombia	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0	3.2	3.0
Ecuador	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3	3.3	4.2
Peru	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2	2.1	3.1
Venezuela	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9	27.4	24.8
MERCOSUR REGION										
Argentina	41.0	3.7	6.1	12.3	9.8	8.5	7.2	7.7	10.9	9.7
Brazil	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.9	6.6
Chile	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4	3.0	3.3
Paraguay	14.6	9.3	2.8	9.9	12.5	6.0	7.5	1.9	7.2	10.2
Uruguay	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9	6.9	8.5
LATIN AMERICA AND CARIBBEAN	12.2	8.5	7.4	6.1	5.0	6.5	8.2	4.7	6.5	6.5

SOURCE: ECLAC, *Economic Survey of Latin America and the Caribbean 2010-2011*

[1] Change in 12 months through May 2011.

Table 4

NET FOREIGN DIRECT INVESTMENT, 2002-2010

(Millions of US dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [1]
NAFTA REGION									
Mexico	22,892	14,989	20,368	17,648	14,294	21,478	25,138	8,315	4,335
DR-CAFTA COUNTRIES									
Dominican Republic	917	613	909	1,123	1,085	1,667	2,870	2,165	1,626
Costa Rica	625	548	733	904	1,371	1,634	2,072	1,339	1,404
El Salvador	496	123	366	398	268	1,455	824	366	78
Guatemala	183	218	255	470	552	720	737	574	663
Honduras	269	391	553	599	669	926	1,007	523	799
Nicaragua	204	201	250	241	287	382	626	434	508
Panama	99	818	1,019	918	2,547	1,899	2,196	1,773	2,363
ANDEAN SOUTH AMERICA									
Bolivia	674	195	83	-291	284	362	508	426	651
Colombia	1,277	783	2,873	5,590	5,558	8,136	8,342	4,049	203
Ecuador	783	872	837	493	271	194	1,006	319	164
Peru	2,156	1,275	1,599	2,579	3,467	5,425	6,188	5,178	7,113
Venezuela	-244	722	864	1,422	-2,032	978	-924	-4,939	-3,794
MERCOSUR REGION									
Argentina	2,776	878	3,449	3,954	3,099	4,969	8,335	3,299	5,247
Brazil	14,108	9,894	8,339	12,550	-9,380	27,518	24,601	36,033	36,919
Chile	2,207	2,701	5,610	4,801	4,556	9,961	7,109	4,813	6,351
Paraguay	12	22	32	47	167	199	275	201	423
Uruguay	180	401	315	811	1,495	1,240	2,117	1,576	2,346
LATIN AMERICA AND CARIBBEAN	51,238	37,612	50,873	56,896	31,906	92,879	98,562	69,367	70,159

SOURCE: *ECLAC, Economic Survey of Latin America and the Caribbean 2010-2011*

[1] Preliminary estimate.

Table 5

EXPORTS, IMPORTS[1] AND CURRENT ACCOUNT BALANCE, 2006-2009

(Millions of US dollars)

	2008			2009			2010 [2]		
	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account
NAFTA REGION									
Mexico	309,382	334,138	-16,339	244,471	257,977	-6,352	313,909	327,076	-5,626
DR-CAFTA COUNTRIES									
Dominican Republic	11,670	17,953	-4,519	10,295	14,120	-2,331	11,671	17,436	-4,435
Costa Rica	13,703	16,516	-2,787	12,499	12,350	-576	13,793	14,734	-1,299
El Salvador	5,761	10,651	-1,533	4,793	7,991	-304	5,553	9,259	-488
Guatemala	9,720	15,570	-1,680	9,220	12,727	8	10,782	15,228	-826
Honduras	7,111	11,691	-2,128	5,778	8,402	-516	6,764	9,881	-955
Nicaragua	2,937	5,357	-1,513	2,857	4,482	-841	3,629	5,486	-963
Panama	16,111	17,502	-2,722	16,652	15,447	-44	17,423	18,706	-2,953
ANDEAN SOUTH AMERICA									
Bolivia	7,027	5,781	1,993	5,433	5,159	813	6,840	6,159	903
Colombia	42,671	44,773	-6,923	38,228	38,509	-5,157	45,223	46,614	-9,032
Ecuador	20,775	20,902	1,357	15,640	16,867	-180	19,428	22,601	-1,917
Peru	34,667	34,153	-5,318	30,607	25,800	211	39,521	34,808	-2,315
Venezuela	97,300	59,998	37,392	59,600	48,064	8,561	67,510	49,194	14,378
MERCOSUR REGION									
Argentina	82,175	68,036	6,755	66,698	49,229	11,127	81,576	67,630	3,573
Brazil	228,393	220,247	-28,192	180,723	174,679	-24,302	233,736	244,322	-47,365
Chile	77,082	69,517	-3,307	62,638	49,966	2,570	81,825	66,990	3,802
Paraguay	8,948	9,436	-304	7,211	7,375	43	9,818	10,554	-596
Uruguay	9,372	10,333	-1,729	8,647	7,957	-106	10,666	9,878	-443
LATIN AMERICAN AND CARIBBEAN [3]	1,022,201	1,010,011	-29,277	806,851	785,851	-19,331	1,006,403	1,006,754	-56,411

SOURCE: ECLAC, *Economic Survey of Latin America and the Caribbean 2010-2011*

[1] Exports and Imports Include both goods (FOB) and services

[2] Preliminary figures

[3] Includes only those countries which have complete data for the four years

Table 6

TOTAL GROSS EXTERNAL DEBT[1], 2002-2010

(Millions of US dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [2]
NAFTA REGION									
Mexico	134,980	132,524	130,925	128,248	116,668	124,433	125,233	163,345	189,175
DR-CAFTA COUNTRIES									
Dominican Republic[3]	4,536	5,987	6,380	5,847	6,295	6,556	7,219	8,215	9,947
Costa Rica	5,310	5,575	5,765	6,763	7,186	8,444	9,105	8,174	8,558
El Salvador[4]	3,987	7,917	8,211	9,044	9,916	9,617	10,261	10,093	10,033
Guatemala[3]	3,119	3,467	3,844	3,723	3,958	4,226	4,382	4,928	5,562
Honduras	5,025	5,343	6,023	5,135	3,935	3,190	3,464	3,345	3,773
Nicaragua[3]	6,363	6,596	5,391	5,348	4,527	3,385	3,512	3,661	3,876
Panama[3]	6,349	6,504	7,219	7,580	7,788	8,276	8,477	10,150	10,439
ANDEAN SOUTH AMERICA									
Bolivia	6,970	7,734	7,562	7,666	6,278	5,403	5,930	5,801	5,836
Colombia	37,382	38,065	39,497	38,507	40,103	44,553	46,369	53,719	64,837
Ecuador	16,236	16,756	17,211	17,237	17,099	17,445	16,887	13,480	13,838
Peru	27,872	29,587	31,244	28,657	28,897	32,894	34,838	35,731	40,236
Venezuela	35,460	40,456	43,679	46,427	44,735	53,361	49,087	63,580	72,959
MERCOSUR REGION									
Argentina	156,748	164,645	171,205	113,799	108,864	124,560	124,923	116,415	128,618
Brazil	210,711	214,929	201,373	169,451	172,589	193,219	198,340	198,192	256,804
Chile	40,504	43,067	43,515	46,211	49,497	55,733	64,318	74,041	86,738
Paraguay	2,900	2,951	2,901	2,700	2,739	2,868	3,276	3,181	3,726
Uruguay	10,548	11,013	11,593	11,418	10,560	12,218	12,021	13,935	13,646
LATIN AMERICA AND CARIBBEAN[5]	739,505	768,439	764,303	675,136	665,630	736,028	745,045	807,665	944,369

SOURCE: ECLAC, Economic Survey of Latin America and the Caribbean 2010-2011

[1] Includes debt owed to the International Monetary Fund.

[2] Preliminary figures.

[3] Refers to external public debt.

[4] Up to 2002 corresponds to public external debt.

[3] Does not include Cuba.

Table 7

TOTAL EXTERNAL DEBT AS PERCENTAGE OF GDP, 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
NAFTA REGION									
Mexico	19.0	18.9	17.3	15.2	12.3	12.0	11.5	18.6	--
DR-CAFTA COUNTRIES									
Dominican Republic	18.2	29.9	29.6	17.4	17.7	16.0	15.9	17.6	--
Costa Rica	31.5	31.8	30.7	32.5	31.0	31.7	29.7	27.4	--
El Salvador	27.9	52.6	52.0	50.9	51.1	44.5	43.9	46.0	--
Guatemala	15.0	15.8	16.0	13.7	13.1	12.4	11.2	13.1	--
Honduras	63.9	64.9	67.9	52.6	36.0	25.7	24.8	23.3	--
Nicaragua	158.0	160.8	120.7	109.8	86.5	60.5	56.2	59.5	--
Panama	51.7	50.3	50.9	49.0	45.4	41.8	36.6	41.7	--
ANDEAN SOUTH AMERICA									
Bolivia	88.2	95.7	86.2	80.3	54.8	41.2	35.6	34.8	--
Colombia	38.0	40.1	33.7	26.3	24.6	21.5	19.1	23.1	--
Ecuador	65.7	59.0	52.7	46.7	41.0	38.3	31.1	25.7	--
Peru	49.1	48.2	44.8	36.1	31.3	30.6	27.0	27.3	--
Venezuela	38.9	49.4	39.6	32.5	24.8	24.0	16.1	19.5	--
MERCOSUR REGION									
Argentina	153.6	127.0	111.8	62.1	50.8	47.5	38.0	38.2	--
Brazil	41.6	38.9	30.3	19.2	15.8	14.1	12.1	12.6	--
Chile	60.0	58.2	45.5	39.1	33.7	33.9	37.6	45.3	--
Paraguay	57.0	53.2	41.7	36.1	29.5	23.5	18.9	24.6	--
Uruguay	83.8	96.0	85.5	67.0	53.3	51.0	38.6	44.2	--
LATIN AMERICA AND CARIBBEAN	39.8	39.9	34.4	25.1	21.0	19.6	17.3	20.2	19.2 [1]

SOURCE: *ECLAC, 2010 Statistical Yearbook & Economic Overview of Latin America and the Caribbean 2010-2011*

[1] Preliminary figure for Latin America and the Caribbean. Data by country not yet available for 2010.

Table 8

EXCHANGE RATES, COUNTRY RISK AND IMF AGREEMENTS, 2011

		US Dollar Exchange Rate			Country Risk[1]		
	Currency	September 1, 2010	September 1, 2011	% change	September 2010	August 2011	IMF Agreements (Dates)
NAFTA REGION							
Mexico	peso	13.18	12.44	5.58%	BBB	BBB	Flexible Credit Line (1/11-1/13)
DR-CAFTA COUNTRIES							
Dominican Republic	peso	36.00	37.75	-4.87%	B	B	Stand-by (11/09-03/12)
Costa Rica	colón	493.99	506.20	-2.47%	BB	BB	
El Salvador	colón/U.S. dollar	8.56	8.74	-2.14%	BB	BB	Stand-by (3/10-3/13)
Guatemala	quetzal	7.90	7.71	2.43%	BB	BB	
Honduras	lempira	18.50	18.49	0.08%	CCC	B	Standy-by (10/10-3/12)
Nicaragua	córdoba oro	21.13	22.24	-5.25%	CC	CC	ECF (10/07-12/11)
Panama	balboa/U.S. dollar	0.98	0.98	0.00%	BBB	BBB	
ANDEAN SOUTH AMERICA							
Bolivia	boliviano	6.86	6.87	-0.08%	B	BB	
Colombia	peso	1,811.11	1,767.18	2.43%	BB	BB	Flexible Credit Line (5/11-5/13)
Ecuador	sucre/U.S. dollar	1.00	1.00	0.00%	CCC	CCC	
Peru	nuevo sol	2.77	2.70	2.46%	BBB	BBB	
Venezuela	bolivar fuerte	4.29	4.29	-0.01%	CCC	CCC	
MERCOSUR REGION							
Argentina	peso	3.95	4.19	-6.25%	CCC	CCC	
Brazil	real	1.75	1.59	9.47%	BB	BB	
Chile	peso	489.89	463.50	5.39%	A	A	
Paraguay	guarani	4,667.60	3,809.34	18.39%	B	B	
Uruguay	peso	20.38	18.18	10.80%	BB	BB	

SOURCES: Oanda <www.oanda.com/convert/fxhistory>; IMF Homepage <www.imf.org>

Key for IMF Agreements:

The Flexible Credit Line works as a renewable credit line, which at the country's discretion could initially be for either one- or two-years with a review of eligibility after the first year.

Stand-by is the most common type of credit arrangement designed to provide short-term financial assistance.

ECF stands for Extended Credit Facility. This arrangement provides financial assistance to countries with protracted balance of payments problems.

[1] Country risk is based on Sovreign Risk figures from the Economic Intelligence Unit 2011.

Table 9

SOCIAL ENVIRONMENT, 2011

	POPULATION[B] (Millions) 2012	AVG. POP. GROWTH[A] % 2010-2015	ILLITERATE POP.[A] (% age 15+) [1] 2005-2010	GDP PER CAPITA[A] (PPP $U.S.) [2] 2009	GDP P/C (PPP) GROWTH[C] % 2010 [3]	INCOME INEQUALITY[A] GINI index [4] 2000-2011	HDI[A] (World rank) [5] 2011	POPULATION IN POVERTY[B] % 2009	URBAN UNEMPLOYMENT RATE[C] % 2010
NAFTA REGION									
Mexico	112.8	1.1	6.6	$14,258	4.4	51.7	57	(2008) 34.8	6.4
DR-CAFTA REGION									
Dominican Republic	10.2	1.2	11.8	$8,433	6.3	48.4	98	41.1	14.3
Costa Rica	4.8	1.2	3.9	$6,564	2.8	50.3	69	18.9	7.1
El Salvador	6.3	0.6	15.9	$6,629	0.9	46.9	105	47.9	(2009) 7.1
Guatemala	15.1	2.5	25.5	$4,720	0.3	53.7	131	(2006) 54.8	4.8
Honduras	7.9	2.0	16.4	$3,842	0.8	57.7	121	(2007) 68.9	6.4
Nicaragua	6.0	1.4	22.0	$2,641	3.2	52.3	129	(2005) 61.9	9.7
Panama	3.6	1.5	6.4	$13,057	5.8	52.3	58	26.4	7.7
ANDEAN SOUTH AMERICA									
Bolivia	10.4	1.6	9.3	$4,419	2.4	57.3	108	(2007) 54.0	6.5
Colombia	47.6	1.3	6.8	$8,959	2.9	58.5	87	45.7	12.4
Ecuador	14.1	1.3	15.8	$8,268	2.5	49.0	83	42.2	6.1
Peru	30.2	1.1	10.4	$8,629	7.5	48.0	80	34.8	7.9
Venezuela	30.0	1.5	4.8	$12,323	-2.9	43.5	73	(2008) 27.6	8.6
MERCOSUR REGION									
Argentina	41.5	0.9	2.3	$14,538	8.1	45.8	45	11.3 [6]	7.7
Brazil	198.7	0.8	10.0	$10,367	6.5	53.9	84	24.9	6.7
Chile	17.5	0.9	1.4	$14,311	4.2	52.1	44	11.5	8.2
Paraguay	6.7	1.7	5.4	$4,523	13.1	52.0	107	56.0	6.8
Uruguay	3.4	0.3	1.7	$13,189	8.1	42.4	48	10.4	7.1

SOURCES: *UNDP, Human Development Report 2011*[A]; *ECLAC, Database and Statistical Publications*[B]; *ECLAC, Economic Survey of Latin American & the Caribbean 2010-2011*[C]

[1] Data refer to national illiteracy estimates from censuses or surveys conducted between 1995 and 2008, unless otherwise specified.

[2] GDP per capita (Purchasing Power Parity in $U.S.). 1 PPP dollar has the same purchasing power in the domestic economy as 1 U.S. dollar has in the U.S. economy.

[3] Preliminary figures for annual growth rates.

[4] The Gini index measures inequality over the entire distribution of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality.

[5] The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity (life expectancy at birth), knowledge (combination of literacy rate and enro decent standard of living (GDP per capita - PPP in $U.S.). HDI rank is based on a total of 169 countries.

[6] Percent of urban population in poverty.

Table 10

Political Environment, 2011

	Level of Democratic Consolidation				Current Government		
	Election Inaugurating Democracy	Unscheduled Head-of-State Changes	Political Rights[1]	Civil Liberties[2]	President / PM	Term	Control of Legislature
NAFTA REGION							
Mexico	2000		3 ↓	3 ↓	Calderón	2006-2012	Opposition Coalition
DR-CAFTA COUNTRIES							
Dominican Republic	1963	1	2	2	Fernandez	2008-2012	Government
Costa Rica	1949		1	1	Chinchilla	2010-2014	Opposition Coalition
El Salvador	1984		2	3	Funes	2009-2014	Opposition
Guatemala	1985 [3]	1	4	4	Perez Molina	2012-2016	Opposition
Honduras	1982	1	4	4	Lobo	2010-2014	Government
Nicaragua	1984		4	4	Ortega	2011-2015	Gvoernment
Panama	1994		1 ▶	2	Martinelli	2009-2014	Govt. Coalition
ANDEAN SOUTH AMERICA							
Bolivia	1980 [3]	7	3	3	Morales	2010-2015	Government
Colombia	1958		3	4	Santos	2010-2014	Govt. Coalition
Ecuador	1978 [3]	8	3	3	Correa	2009-2013	Govt. Coalition
Peru	1980 [3]	1	2	3	Humala	2011-2016	Opposition
Venezuela	1958	6	5	5 ↓	Chávez	2007-2013	Government
MERCOSUR REGION							
Argentina	1983 [3]	4	2	2	C. Kirchner	2011-2015	Government
Brazil	1989		2	2	Rousseff	2010-2014	Govt. Coalition
Chile	1989		1	1	Piñera	2010-2014	Govt. Coalition (Lower) Opposition (Upper)
Paraguay	1993		3	3	Lugo	2008-2013	Govt. Coalition
Uruguay	1985		1	1	Mujica	2010-2015	Government

SOURCE: *Freedom in the World 2011: Setbacks and Resilience.* <http://freedomhouse.org/template.cfm?page=363&year=2011>

[1] Freedom House definition: Those rights that enable people to participate freely in the political process. On this scale 1 represents the most free and 7 the least free.

[2] Freedom House definition: Freedoms to develop views, institutions and personal autonomy apart from the state. On this scale 1 represents the most free and 7 the least free.

[3] Interrupted democracies

↑ ↓ Up or down indicate, respectively, an improvement or a worsening of the political environment from 2009.

Table 11

CENTRAL GOVERNMENT BALANCE 2006-2010

(Percentages of GDP)

	Primary Balance					Overall Balance				
	2006	2007	2008	2009	2010 [1]	2006	2007	2008	2009	2010 [1]
NAFTA REGION										
Mexico [2]	2.1	1.9	-0.2	-0.5	-1.2	0.1	0.0	-1.6	-2.2	-2.7
DR-CAFTA COUNTRIES										
Dominican Republic [3]	0.3	1.4	-1.9	-1.6	-0.6	-1.1	0.1	-3.5	-3.5	-2.5
Costa Rica	2.7	3.7	2.4	-1.3	-3.1	-1.1	0.6	0.2	-3.4	-5.3
El Salvador	2.0	2.2	1.8	-1.2	-0.4	-0.4	-0.2	-0.6	-3.7	-2.7
Guatemala [4]	-0.6	0.0	-0.3	-1.7	-1.8	-1.9	-1.4	-1.6	-3.1	-3.3
Honduras	-0.1	-2.4	-1.9	-5.5	-3.8	-1.1	-3.1	-2.5	-6.2	-4.8
Nicaragua	1.9	2.0	0.0	-0.9	0.5	0.0	0.4	-1.2	-2.3	-0.1
Panama	4.4	4.6	3.4	1.4	0.1	0.2	1.2	0.3	-1.5	-2.7
ANDEAN SOUTH AMERICA										
Bolivia [5]	5.3	3.5	0.8	-0.4	1.3	3.5	2.3	0.0	-2.0	-0.3
Colombia [6]	0.2	1.0	0.6	-1.1	-1.1	-3.4	-2.7	-2.3	-4.1	-3.8
Ecuador	2.0	1.9	0.3	-4.2	-2.1	-0.2	-0.1	-1.1	-5.1	-3.0
Peru	3.2	3.5	3.6	-0.4	1.1	1.5	1.8	2.2	-1.7	0.0
Venezuela	2.1	4.6	0.1	-3.7	-2.8	0.0	3.1	-1.2	-5.1	-3.7
MERCOSUR REGION										
Argentina [7]	2.7	2.7	2.8	1.4	1.5	1.0	0.6	0.7	-0.8	-0.1
Brazil [8]	2.1	2.2	2.4	1.3	2.2	-2.9	-1.9	-1.2	-3.5	-1.0
Chile	8.4	9.0	4.8	-4.0	0.1	7.7	8.4	4.3	-4.5	-0.4
Paraguay	1.5	1.8	3.1	0.7	1.8	0.5	1.0	2.5	0.1	1.4
Uruguay	3.2	2.1	1.7	1.3	1.2	-1.0	-1.6	-1.1	-1.5	-1.1
LATIN AMERICA AND CARIBBEAN [9]	1.9	2.1	1.3	-0.5	0.1	-1.2	-0.5	-1.2	-3.5	-2.8

Source: ECLAC, 2010-2011 *Economic Survey of the Latin America and the Caribbean & 2010 Preliminary Overview*

[1] Preliminary figures

[2] Central government refers to federal government. Public sector.

[3] The overall balance includes residual.

[4] Central administration.

[5] General government.

[6] Central national government. Does not include the cost of financial restructuring.

[7] National public administration.

[8] The figures are derived from the primary balance based on the below-the-line criterion and nominal interest rate.

[9] Simple average of 33 countries reported.

Table 12

LEGAL ENVIRONMENT, 2011

	Rule of Law[1]	Corruption Perception[2]	Economic Freedom[3]	Property Rights[4]	Days Required to[5]			Global Competitiveness
	Percentile Rank	Rank	Rank	Percentile Rank	Start a Business$_a$	Register Property$_b$	Enforce Contracts$_c$	Rank
NAFTA REGION								
Mexico	34.0 ↑	98 ↓	48 ↓	50	9 ↑	74	415	58 ↑
CAFTA-DR								
Dominican Republic	28.3 ↓	101 ↓	90 ↓	30	19	60	460	110 ↓
Costa Rica	65.6 ↑	41 ↓	49 ↑	55 ↑	60	21	852	61 ↓
El Salvador	22.6 ↓	73 ↑	39 ↓	40 ↓	17	31	786	91 ↓
Guatemala	13.7 ↑	91 ↑	79 ↑	35	37 ↓	23 ↑	1,459	84 ↓
Honduras	20.8 ↑	134 ↓	99	30	14	23	900	86 ↑
Nicaragua	21.7 ↑	127 ↑	98	20 ↓	39	124	540	115 ↓
Panama	52.4 ↑	73 ↑	59 ↑	40	9 ↑	32	686	49 ↑
ANDEAN SOUTH AMERICA								
Bolivia	9.9 ↓	110 ↑	147 ↓	10	50	92	591	103 ↑
Colombia	39.6 ↑	78 ↓	45 ↑	50	14 ↑	20	1,346	68
Ecuador	7.5 ↓	127 ↑	158 ↓	20	56 ↑	16	588	101 ↑
Peru	30.2 ↑	78 ↓	41 ↑	40	27 ↑	7 ↑	428	67 ↑
Venezuela	2.8 ↓	164 ↓	175 ↓	5 ↑	141 ↑	47	510	124 ↓
BRAZIL AND SOUTHERN CONE								
Argentina	29.7 ↓	105 ↑	138 ↓	20	26 ↑	52	590	85 ↑
Brazil	49.5 ↑	69 ↑	113	50	120	42	616	53 ↑
Chile	87.7 ↓	21 ↑	11 ↓	85	22 ↑	31	480	31 ↓
Paraguay	16.5 ↑	146 ↑	77 ↑	30	35	46	591	122 ↓
Uruguay	70.8 ↑	24 ↑	33	70 ↓	65	66	720	63 ↑
ASIA (For Comparison)								
China	45.3 ↑	78 ↑	135 ↑	20	38	29	406	26 ↑

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from 2009. The absence of an arrow indicates "no change" from the previous year.

1: As measured by the World Bank's Governance Indicators: 1996-2010 <www.worldbank.org>. The percentages measure the extent to which agents have confidence in and abide by the rules of society, including perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

2: As measured by Transparency International, Corruption Perceptions Index 2010 <www.transparency.org>. Focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The country ranks measure the corruption level in 178 countries as perceived by business people, risk analysts, investigative journalists and the general public.

3: As measured by the Heritage Foundation's 2011 Index of Economic Freedom. Countries are ranked in order of economic freedom out a total of 179 countries.

4: As measured by the Heritage Foundation's 2011 Index of Economic Freedom. The percentages measure the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. I00% indicates that private property is guaranteed by the government, 0% indicates that private property is outlawed.

5: As measured by the World Bank Group's report "Doing Business 2011" a) total number of tax payments per year b) time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions c) total amount of taxes and mandatory contributions payable by the business.

6: The Global Competitiveness Report 2011-2012 produced by the World Economic Forum <http://www.weforum.org/reports>. This ranking is based on a total of 142 countries and is determined by measuring 12 pillars of competitiveness including: Institutions, Infrastructure, Health & Primary Education, Higher Education, Good Market Efficiency, Labor Market Efficiency, Financial Market Development, Technological Readiness, Market Size, Business Sophistication and Innovation.

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Latin American Newspapers accessible through Latin American Network Information Center at:
http://www1.lanic.utexas.edu/la/region/news/

Latin America Advisor (Subscriptions available to mailto:freetrial@thedialogue.org)

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Primary Data Sources

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Latin American Business Environment Program
Center for Latin American Studies
University of Florida
PO Box 115530
University of Florida
Gainesville, FL 32611-5530 USA

Tel: (352) 273-4714
Fax: (352) 392-7682
http://www.latam.ufl.edu/LABE/index.stm