WELCOME/BIENVENIDOS/BEMVINDOS

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2008 LATIN AMERICAN BUSINESS ENVIRONMENT: Overview
2008
Latin American Business Environment Report

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

Global

Regional

Economic

Financial

Social

Political

Policy

Legal

Domestic Environment
The 2008 Latin American Business Environment: “Before the Fall”

Regional business environment was favorable
- Economies growing – 6\textsuperscript{th} consecutive year of growth
- Inflation under control
- External performance strong
- Social environment improving and political environment stable

How long would it last?
- History of stop-go cycles
- Global environment was deteriorating
- Significant country-to-country variations

Analysis
- Regional trends
- 18 largest economies grouped region/trade blocs
Average Annual Inflation Rate for Latin America, 1998-2008
(Sources: ECLAC 2007 and IMF Economic Outlook 2008)
(Source: ECLAC 2007)
Net Foreign Direct Investment in Latin America, 1997-2007
(Source: ECLAC 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Investment (in millions of US dollars)</th>
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<td>1997</td>
<td>57,599</td>
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<td>2007</td>
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Terms of Trade for Latin America, 1998-2007
(Source: ECLAC 2007)
Policy Environment: State of New Economic Model

“Holy Trinity” of Macro-economic Policy
• Inflation-targeting
• Fiscal discipline
• Floating exchange rates

Uncertain Future of Structural Reform
• Populist alternative
• End of privatization/re-nationalization
• Re-imposition of state into economy
• Energy and infrastructure industries most vulnerable
Other Features of 2008 Environment

Social Environment
- Poverty and unemployment declining (inequality?)
- Incomes and consumption increasing
- Crime and violence ongoing concerns

Political Environment: Shift to Center
- Leftist-populist Bolivarian challenge (Venezuela, Bolivia) vs.
- Pragmatic left (Brazil, Chile, Uruguay)

Legal Environment: Disappointing
- Slow, uneven progress in strengthening rule of law
- Bilateral investment and free trade treaties

Business environment stronger but differences among countries
Country Environments, 2008

Attractive Environments (8)
- Mexico
- Costa Rica
- Panama*
- Dominican Republic
- Peru
- Chile
- Uruguay*
- Brazil

Mixed Environments (6)
- El Salvador*
- Guatemala
- Honduras*
- Colombia
- Argentina
- Paraguay

Problematic Environments (4)
- Nicaragua
- Venezuela
- Bolivia
- Ecuador

*Upcoming elections
Latin American Outlook

Over-arching questions
• Was the growth cycle sustainable?
• Had the chronic stop-go pattern been broken?

Growing concerns
• Inflation fueled by rising energy and food prices and overheated economies
• Uncertainty in global credit markets
• Economic downturn in US spreading to other mature markets
• Stalled trade agenda

Offsetting developments
• Strong terms of trade fueled by growth of China, India and other emerging markets
• “Decoupling” from US
• Strong domestic policies and performance reducing external vulnerability

Events of Sept-Oct and Latin America
Events of Sept-Oct 2008: Another External Shock?

Components of Global Crisis ➔
- Financial markets meltdown
- Falling commodity prices
- Economic recession

Impact on Latin America
- Scarcity and cost of capital
- Falling export earnings
- Slower growth ↓

Short-term Consequences
- Collapse in equity markets
- Increase country risk spreads
- Sharp currency devaluation
- GDP growth forecasts lower↓

Longer-term Scenarios
- Mild downturn & quick recovery
- Another “lost half decade”
- Major paradigm shift
Another Paradigm Shift?

Export-led Growth  
1820-1850  
(internal consolidation)

Transition  
1850-1914

Inward-looking Development  
1914-1945  
(external shocks)

Dates

1945-1973

1973-1990  
(external shock, debt crisis)

1990-2008?  
2008 Global Crisis?