



WELCOME/BIENVENIDOS/BEMVINDOS

**Terry McCoy, Director
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Program**



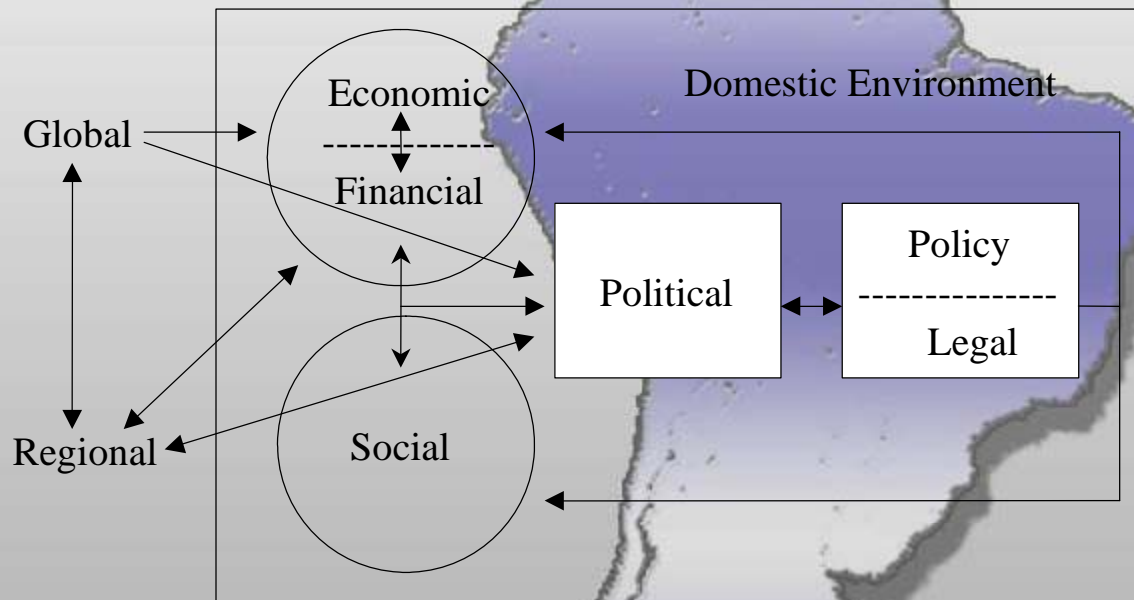
2008 LATIN AMERICAN BUSINESS ENVIRONMENT: Overview

**2008
Latin American
Business
Environment
Report**

<http://www.latam.ufl.edu/labe/publications.stm>



Latin American Business Environment: Conceptual Framework



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

Regional business environment was favorable

- Economies growing – 6th consecutive year of growth
- Inflation under control
- External performance strong
- Social environment improving and political environment stable

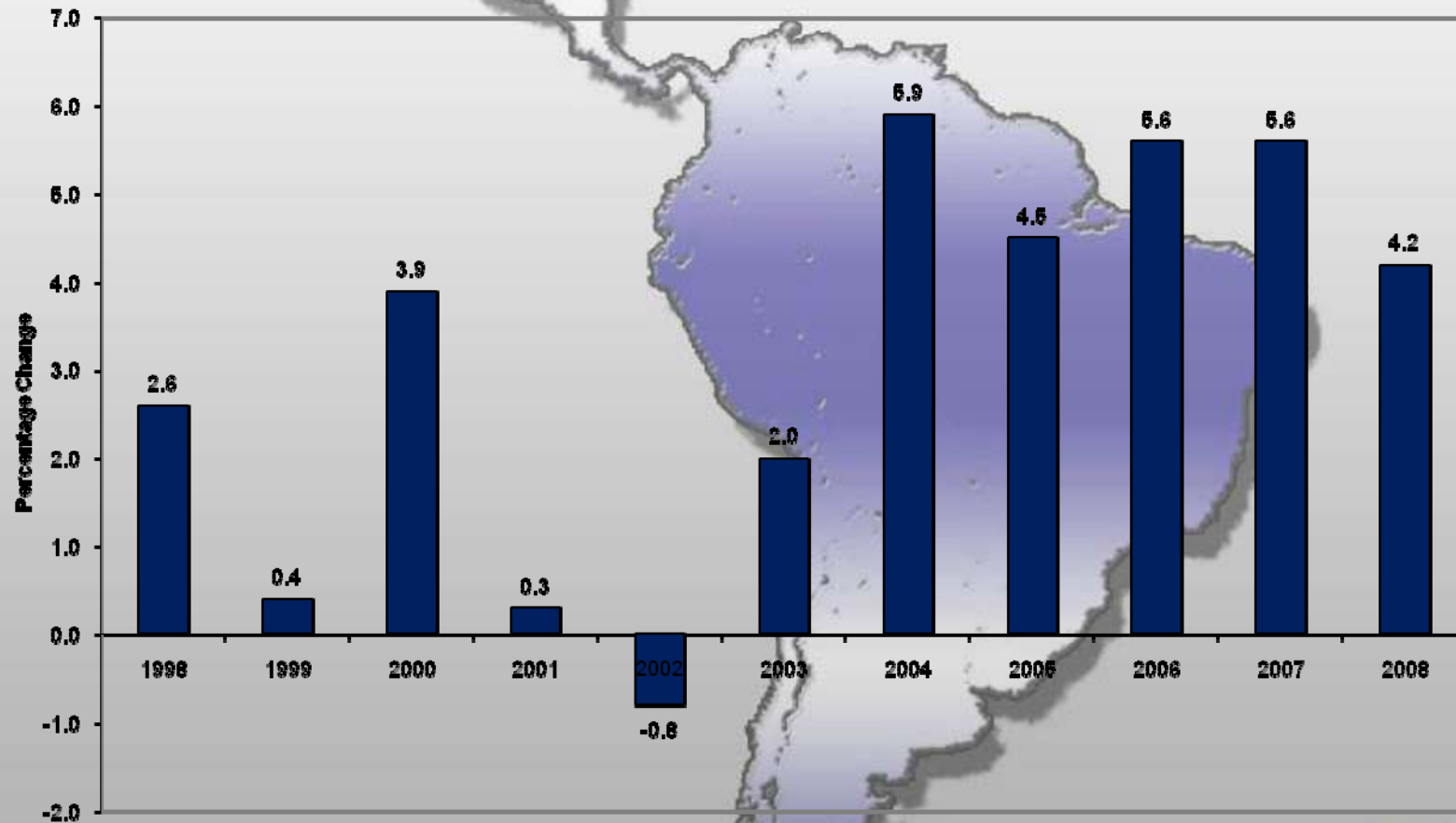
How long would it last?

- History of stop-go cycles
- Global environment was deteriorating
- Significant country-to-country variations

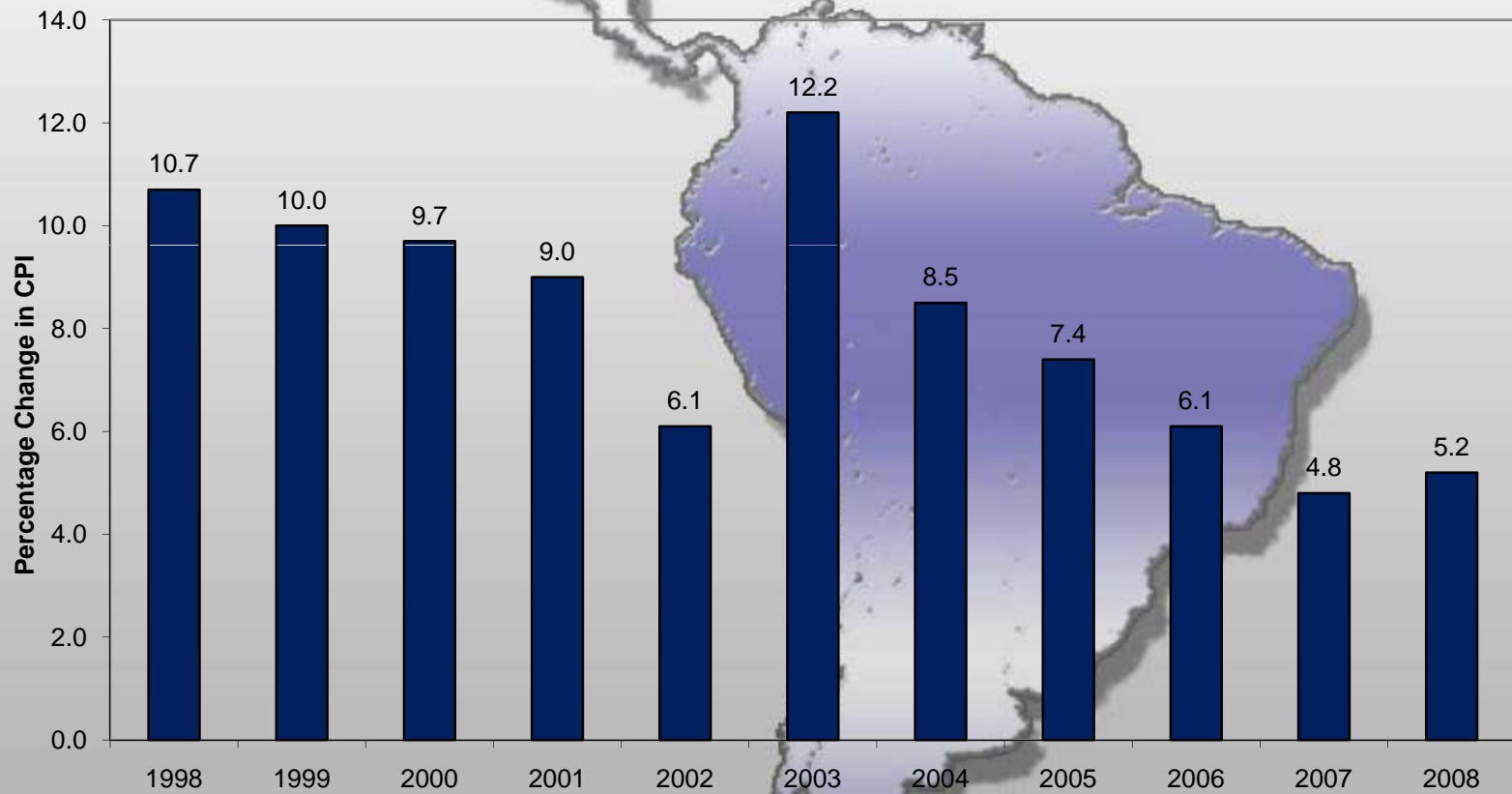
Analysis

- Regional trends
- 18 largest economies grouped region/trade blocs

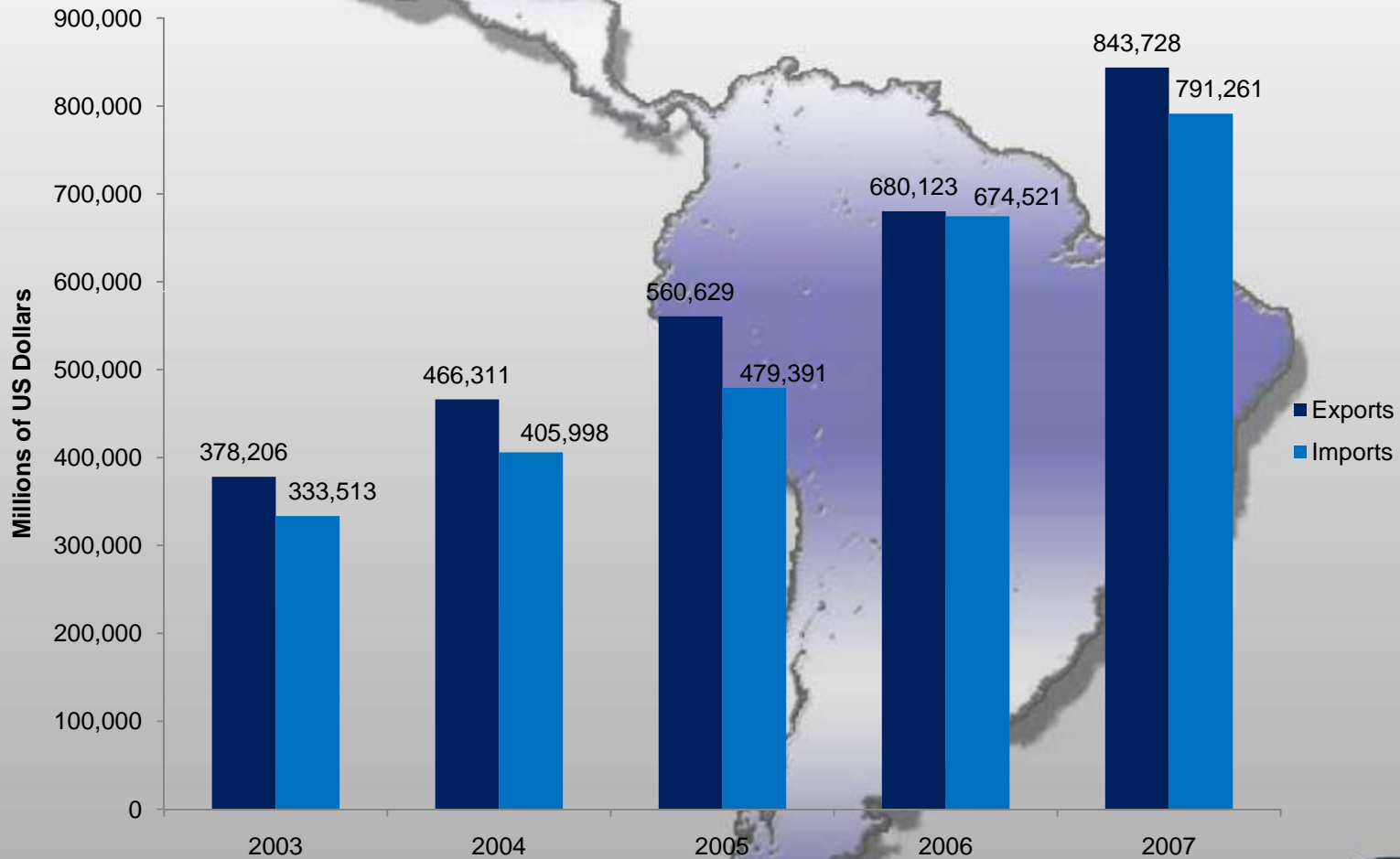
GDP Growth for Latin America, 1998-2008
(Sources: ECLAC 2007 and IMF Economic Outlook 2008)



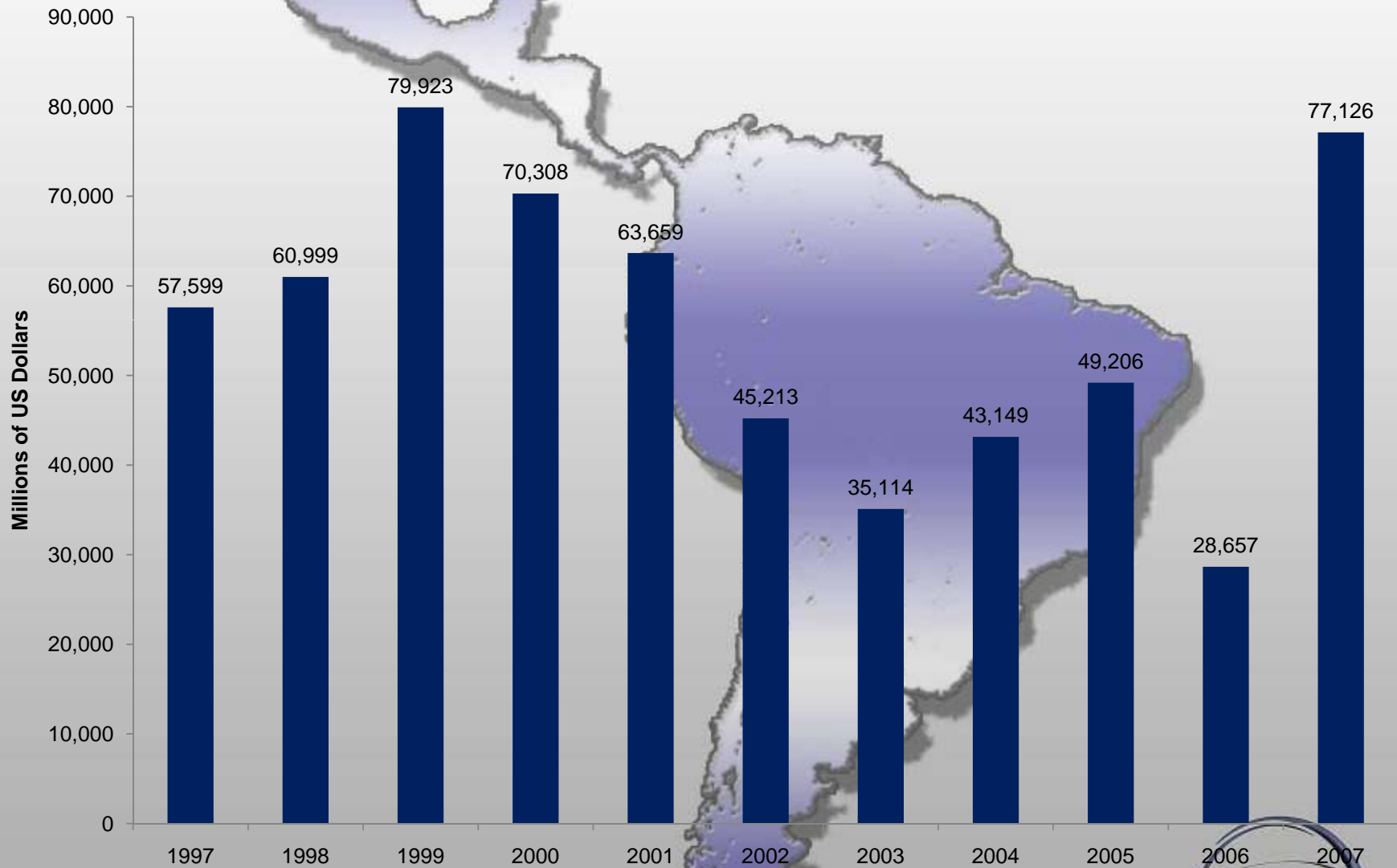
Average Annual Inflation Rate for Latin America, 1998-2008
(Sources: ECLAC 2007 and IMF Economic Outlook 2008)



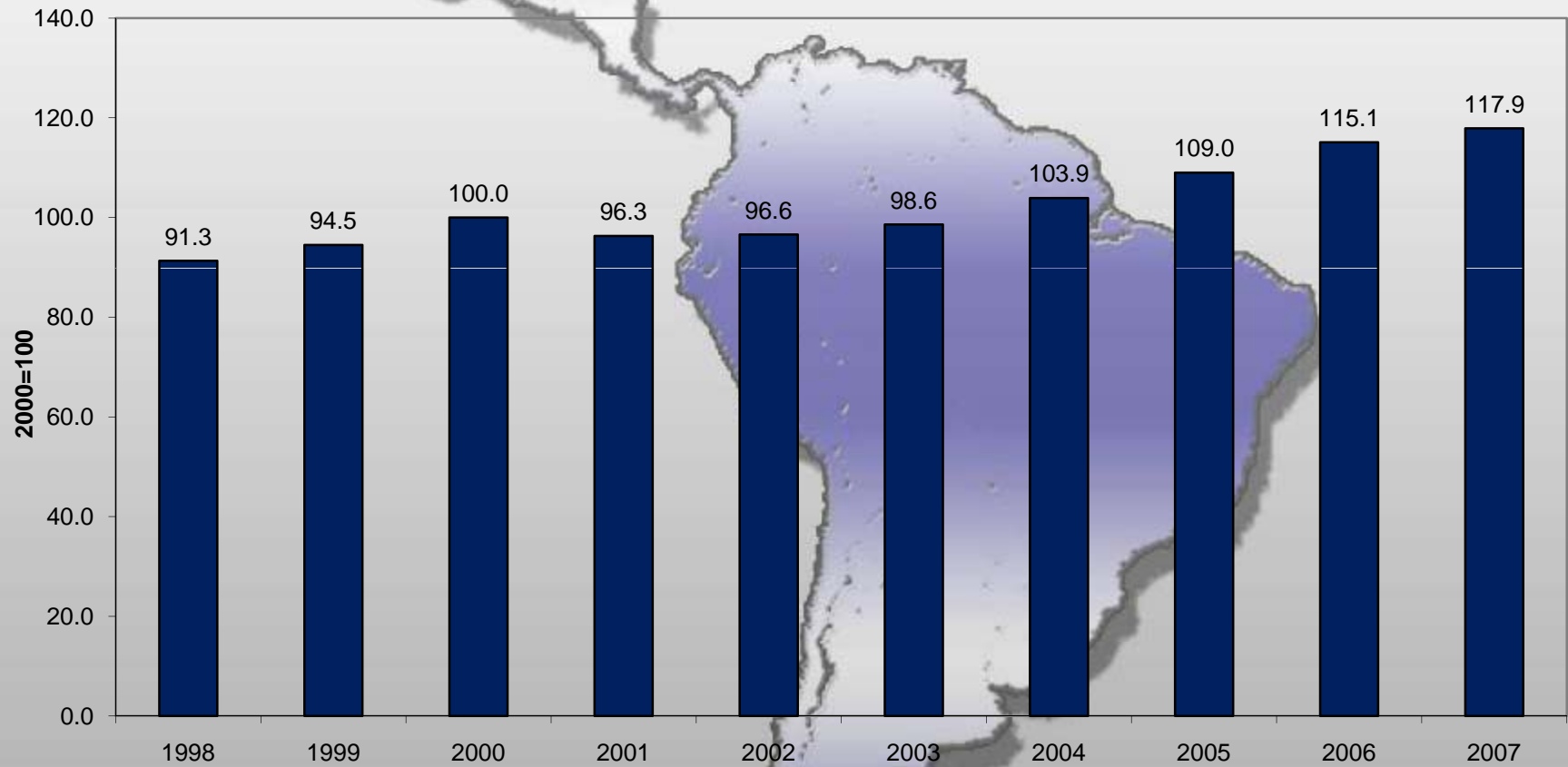
Exports and Imports of Goods and Services in Latin America, 2003-2007
(Source: ECLAC 2007)



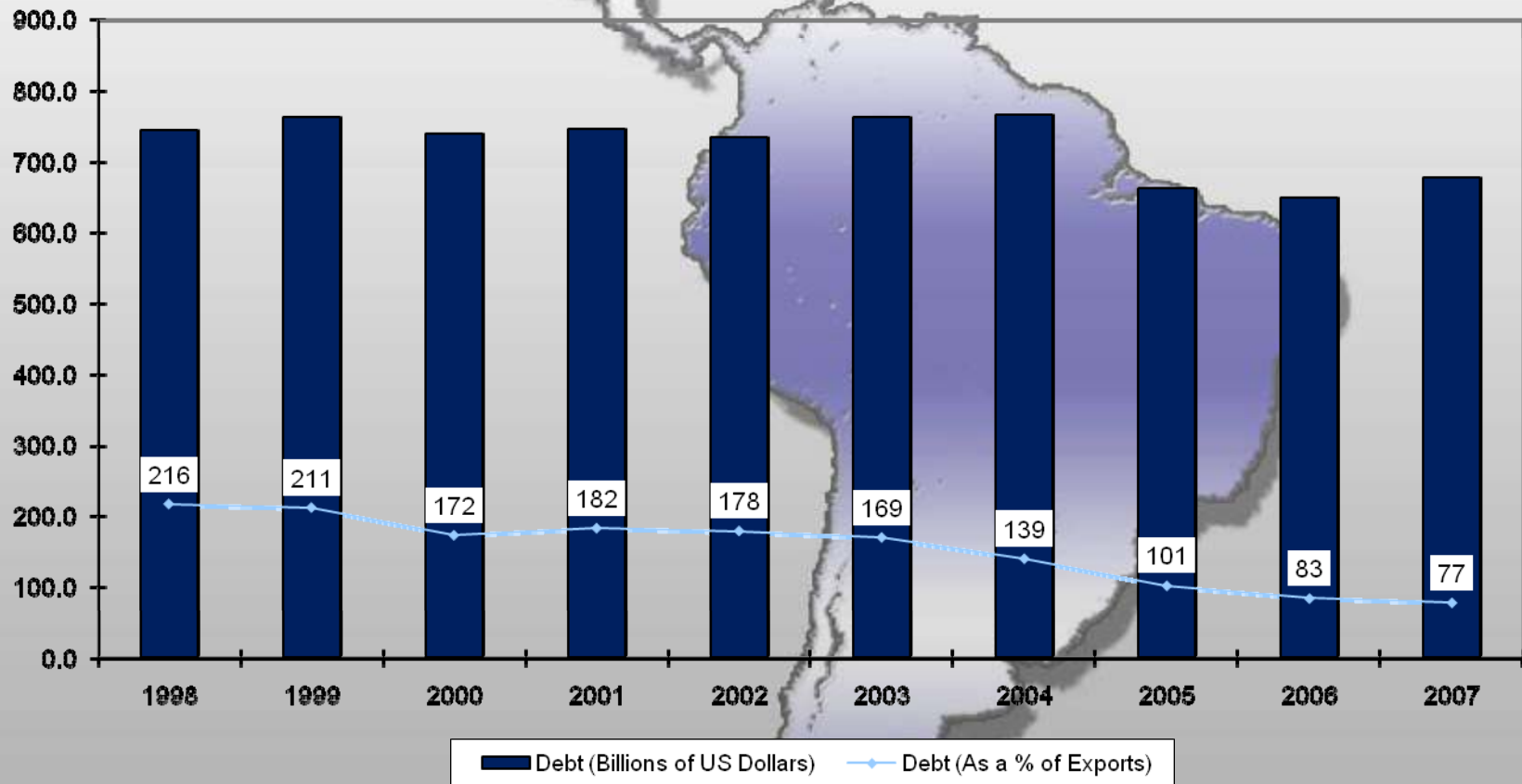
Net Foreign Direct Investment in Latin America, 1997-2007 (Source: ECLAC 2007)



Terms of Trade for Latin America, 1998-2007
(Source: ECLAC 2007)



Gross Disbursed External Debt for Latin America, 1997-2007
(Source: ECLAC 2007)





Policy Environment: State of New Economic Model

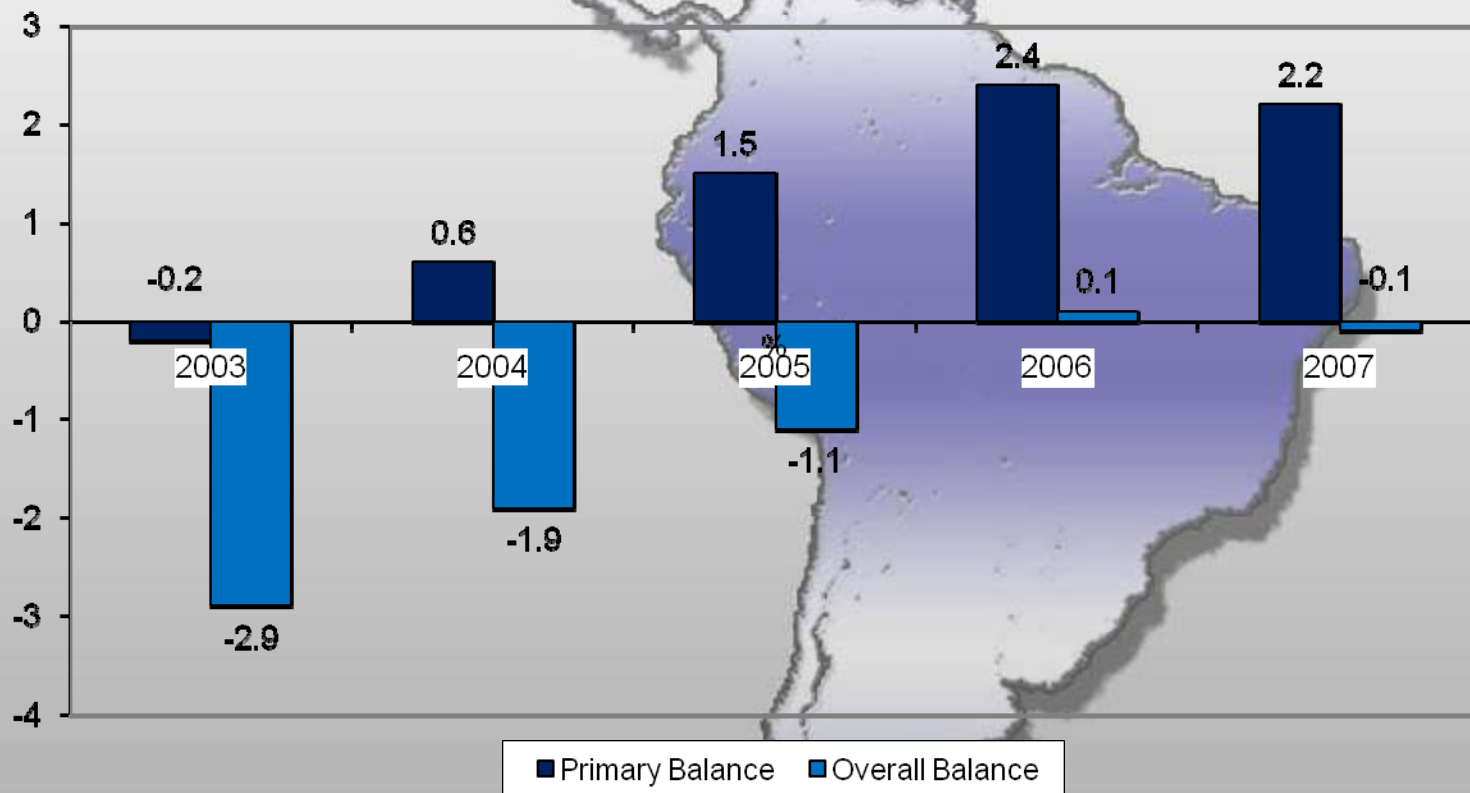
“Holy Trinity” of Macro-economic Policy

- 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

Central Government Balance for Latin America 2003-2007
(% of GDP. Source: ECLAC 2007)



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

A stylized map of Latin America, including Mexico, Central America, and South America, rendered in a light blue color. It is positioned in the upper left and center of the slide, serving as a background for the text.

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

Transition

Inward-looking Development

Dates

