Democratic Process and Economic Performance in Latin America

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Part I: Latin America and the Caribbean in the World

Part II: Democratic Process

Part III: Economic Performance
In 2005, the share of Latin American and the Caribbean population in the world total was of 9%.

Population of Latin America and the Caribbean as a percentage of the World Population

1990
- World: 92%
- Latin America and the Caribbean: 8%

2005
- World: 91%
- Latin America and the Caribbean: 9%
In 2005, the share of the region GDP in the world total was of 6.1%, the same as in 1990.
Market Share in World Trade:
(LAC exports in percent of total world imports)
The Latin America and the Caribbean region received a third of FDI to developing regions between 1990 and 2004...

FDI inflows in developing regions (1990 – 2004)

- Latin America and The Caribbean: 33%
- Developing Asia (excl. China): 32%
- China: 23%
- Africa: 6%
- Southeast Europe and CIS: 6%

Source: UNCTAD
Note: CIS = Commonwealth of Independent States
FDI inflows to the Latin American and the Caribbean Region
(In US$ billions)
Share of LAC in World Production of main minerals

Source: ECLAC based on data from Gold Fields Mineral Services.
The Latin American and the Caribbean region possesses 10% of total Oil Reserves...

Oil Reserves, 2004

Middle East 62%

Rest of the World 28%

Latin America and The Caribbean 10%

Venezuela 67%

Brazil 9%

Mexico 13%

Ecuador 4%

Other 7%

...and represents 10% of total Oil Production

Oil Production, 2004

Comparison of 2005 GDP per capita: Korea vs. LAC (PPP)

Source: ECLAC based on data from World Bank
Korea trade with Latin American and the Caribbean has been increasing and show a positive balance for Korea.

Republic of Korea – Latin American and Caribbean trade evolution, 1976-2005

Source: ECLAC, Division of International Trade and Integration, on the basis of official information from International Commodity Trade Data Base (COMTRADE)
### Republic of Korea – Latin American trade patterns


<table>
<thead>
<tr>
<th>Trade flows</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>96-2000</td>
<td>2001-05</td>
<td>96-2000</td>
</tr>
<tr>
<td>Commodities</td>
<td>9</td>
<td>9</td>
<td>1261</td>
</tr>
<tr>
<td>NN. RR. based manuf.</td>
<td>433</td>
<td>663</td>
<td>1158</td>
</tr>
<tr>
<td>Low technology</td>
<td>1106</td>
<td>1218</td>
<td>90</td>
</tr>
<tr>
<td>Mid technology</td>
<td>5372</td>
<td>5401</td>
<td>701</td>
</tr>
<tr>
<td>High technology</td>
<td>1632</td>
<td>2769</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>8552</td>
<td>10060</td>
<td>3310</td>
</tr>
</tbody>
</table>

Korea exhibits: deficit in Primary Products: Commodities & Natural resource-based manufactures

Products with more Latin American comparative advantages

Korea exhibits: surplus in more intensive manufactures

Source: ECLAC, Division of International Trade and Integration, on the basis of official information from International Commodity Trade Data Base (COMTRADE)
Part I: Latin America and The Caribbean in the World

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Latin America and the Caribbean: a Democratic Region

The Latin American and Caribbean Region may be considered a free and democratic area.

What seems to be a norm in the present days, has not always been so. At the beginning of the 80’s only 5 countries of the region were under a democratic system.

Democracy in Latin America and the Caribbean has arrived to stay.
Elections in the Region

- Between November 2005 and December 2006 there will have been held twelve presidential elections in the region
Elections in Latin America and the Caribbean

Of these 12 presidential elections:

- 4 are still pending and will take place shortly:
  - Brazil (Oct 2006)
  - Ecuador (Oct 2006)
  - Nicaragua (Nov 2006)
  - Venezuela (Nov/Dec 2006)

- ...and only one of them had its results questioned by one of the contenders
  - Mexico (Jul 2006)

...but even in this case a peaceful and democratic solution has been achieved!!

- 7 have already had their results accepted by their population without any controversy
  - Honduras (Nov 2005)
  - Haiti (Nov/Dec 2005)
  - Bolivia (Dec 2005)
  - Chile (Jan 2006)
  - Peru (Apr 2006)
  - Colombia (May 2006)
  - Costa Rica (Oct 2006)
...a False Image

- Due to the strong language of some Presidents, and the recent nationalization of hydrocarbons in Bolivia, there might be the impression that Latin America is becoming a “populist” continent.

- This image is not appropriate...

- A correct interpretation is: the democratic process has consolidated and democracy has deepened. This has made possible:
  - The election of a worker as president of Brazil
  - ... an indigenous leader in Bolivia
  - ... and a woman in Chile
**Energy as a Strategic Resource**

While it is true that the recent nationalization of gas in Bolivia might send the wrong impression of a return to the past, the reality is that:

- In Mexico... the oil industry is state owned

- In Venezuela, Brazil, and Ecuador, the main oil producer is state owned (Copper in Chile)

- In most oil producing countries...most of this industry is state owned

The truth is... these natural resources are a source of high revenue for the government finances
Macroeconomic Responsibility

The vast majority of Latin-American and Caribbean governments (center-lefts or center-rights), have understood that some economic policies do not have ideologies:

- Fiscal responsibility,
- Macro-economic equilibriums,
- More open economies, and
- Foreign investment

are fundamental conditions for economic growth and prosperity.

The democratic process is taking place in the context of positive economic conditions.
In Summary

1. Latin America and the Caribbean is a region where democracy prevails

2. In one year, the maximum political authorities of twelve countries of the region will have been democratically elected

3. All countries have understood that responsible economic policies are not under discussion

4. Natural resources, particularly energy resources, have become an important source of fiscal revenues for some countries
Part I: Latin America and The Caribbean in the World

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1. The region's growth in perspective
The growth rate for 2006 is expected to be higher than in 2005

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2006
(Annual growth rate, %)

Argentina
Venezuela (Bol. Rep. of)
Panamá
Dominican Republic
Uruguay
Peru
CARIBBEAN
Costa Rica
South America
Chile
LATIN AMERICA & CARIBBEAN
Colombia
Honduras
Mexico and Central America
Mexico
Bolivia
Ecuador
Guatemala
Brasil
El Salvador
Nicaragua
Paraguay
Haiti

The figure for Central America includes Haiti and the Dominican Republic.
Growth paves the way for an increase in per capita GDP
However, the region is growing less than developing countries as a group. This is partly due to slower growth in the region’s two largest economies.
1. The region's growth in perspective
2. Characteristics of the business cycle
World growth and Asia’s expansion are having a positive impact on the terms of trade, but this impact varies across subregions.

VARIATION IN TERMS OF TRADE BETWEEN THE 1990s AND 2005

- South America (excluding Chile & Bol. Rep. of Venezuela): 31.0%
- South America: 10.3%
- Central America: -11.8%
- Mexico: 22.0%
Resources from migrant workers’ transfers amounted to 2.3% of GDP in 2005

LATIN AMERICA AND THE CARIBBEAN: RESOURCES FROM MIGRANT WORKERS’ TRANSFERS
(Percentages of current GDP)

South America: 1.1
Central America: 10.4
Mexico: 2.7
Caribbean: 5.8

2000 2001 2002 2003 2004 2005e
Exports continue to be a dynamic component of demand...

LATIN AMERICA: GROWTH RATE OF MERCHANDISE EXPORT VOLUMES, 2004-2005 averages

- Uruguay
- Paraguay
- Peru
- Panama
- Brazil
- Bolivia
- Nicaragua
- Haiti
- South America
- Argentina
- Ecuador
- Latin America and the Caribbean
- Chile
- Venezuela (Bol. Rep. of)
- Costa Rica
- Mexico and Central America
- Mexico
- Colombia
- Honduras
- Guatemala
- Dominican Republic
- El Salvador

Latin America 2006(p): 8.5%
Investment is also dynamic, specially in South America.

(Rates of variation in dollars at constant 2000 prices)
Growth influences the labour market and reduces unemployment

LATIN AMERICA: EMPLOYMENT AND UNEMPLOYMENT

First 6 months

Unemployment Employment

2005  9.6  53.3
2006/p  8.8  53.9

Employment rate

Unemployment rate
1. The region's growth in perspective
2. Characteristics of the business cycle
3. Risks posed by the international situation
The main issues raised by the international situation

- Rising oil prices and their impact on core inflation
- The deepness of the US economy slowdown
- To what extent will increased growth in the EU, Japan and the rest of Asia make up for the slowdown in the US?
- The failure of Doha could trigger protectionist pressures

**Forecast:** there will be a soft landing together with a slight slowdown in world growth.
1. The region's growth in perspective
2. Characteristics of the business cycle
3. Risks posed by the international situation
4. The region is less vulnerable
Comparison with the last similar growth cycle

LATIN AMERICA: ANNUAL AVERAGE GROWTH RATES

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>National income</td>
<td>15.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Investment</td>
<td>3.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>2.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Total consumption</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

INCOME ELASTICITY OF IMPORTS

- 1991-1994: 3.6
- 2003-2005: 2.6
Surplus in current account: a good news compared with preceding periods

GDP Growth Rate and Current Account

GDP Growth Rate
Current account / GDP
Fiscal revenues are improving and expenditures are under control. This improves public account balances.
As a result:
- Public debt to GDP ratio is falling
- External Debt to Exports is falling
- Short-Term debt to International Reserves is also falling

And on top of that:
- Increasing proportion of fixed-rate debt
- Increasing proportion of local currency debt.

And...
Country risk is substantially lower than in the past, but untenable levels may be reached in crisis situations.

SPREADS: EMBI+ AND LATIN AMERICAN COMPONENT
(December 1996 to June 2006)
However, some countries still have highly dollarized economies and hefty public debts
To sum up

- The region’s economies will continue to grow in the near future
- The region is less vulnerable to external shocks, but there are differences across countries
- The risk of populism is low, specially on macroeconomic issues
- Countries must place stronger emphasis on countercyclical policies
1. The region's growth in perspective
2. Characteristics of the business cycle
3. Risks posed by the international situation
4. The region is less vulnerable
5. How the region can make use of this opportunity
We need to lay the foundations for a sustainable development process

- Building social and political consensus
  - Improving social cohesion through social and productive policies and better institutions
  - Building a fiscal covenant that ensures the availability of resources to finance these policies

- Implementing a development strategy that emphasizes the **diversification of the productive structure**. The region needs to:
  - Improve education
  - Promote innovation
  - Encourage investment
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