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LATIN AMERICA AND THE CARIBBEAN - MIXED ECONOMIC NEWS

The population of the Latin American and Caribbean region amounts to about 474 million in 1997 according to the United Nations, or a little more than 8 percent of the world's population. The region accounts for about eight and a half percent of the world's output. Although no exact measure exists to measure the living standards of a nation, per capita Gross Domestic Product (GDP) provides a good barometer. According to figures from the Inter-American Development Bank, the region's living standards in 1998 range from Haiti's (in french only) US \$214 and Nicaragua's US 491 to Argentina's US\$ 6,512, Barbados' US \$7,092 and the Bahamas' US \$11,694. These figures illustrate the very divergent stages of economic development prevailing in the region, which imply statements pertaining to the region as a whole may not accurately reflect the underlying economic situation in any given nation.

As the 1990s end, the mood about the economic prospects for the Latin America and Caribbean region has become more optimistic than compared to the start of the decade. During this time period, major changes have taken place in the economic development strategies for most countries in the region. Almost all of the states have moved away from the protectionist, import-substitution model in favour during the 1950s. The economic role of the state has been de-emphasized by fostering a more prominent role for private enterprise. The tendency toward democratization during the 1990s has helped re-enforce the movement to more market oriented economies. While these strides in establishing market-based, outward-oriented economies during the 1990s contributed to a resumption in economic growth resuming after having stagnated in the previous decade, it only represents the beginning of a long and trying process to lay the economic foundation necessary to raise living standards in the region.

1998 A DEPRESSING YEAR

The Latin American and Caribbean region endured a trying year in 1998, largely as a result of external shocks. The region continued suffering from the adverse economic effects associated with the Asian flu that occurred in mid-1997 and the accompanying slowdown in global economic activity. This slowdown in economic activity led to a sharp drop in the value of exports for the region as the price of commodities, a key component of the region's export, dropped sharply. The back breaking blow for the region came with the Russian crisis in August 1998. As a result of the situation in Russia, international financial markets cut off access to credit for the region as international lenders lumped all developing economies together as a bad risk regardless of whether their underlying fundamentals warranted this assessment. Moreover, some financial institutions suffered large losses from their exposure to Russia which caused a further scaling back of loans to the region by these lenders.

At the same time as Latin America and the Caribbean suffered from contracting demand, many countries endured negative supply shocks. The region endured a series of natural disasters during 1998. Storms associated with El Nino hit parts of South and Central America hard, especially Ecuador and Peru. In particular, storms hampered agriculture and

fishing in these two countries. In the last two months of 1998, Hurricanes George and Mitch devastated the Dominican Republic, Honduras, Nicaragua and severely damaged other neighbouring countries¹. Besides adversely affecting the harvest and causing widespread human suffering, these storms also severely damaged the countries' infrastructure. The full negative impact of the infrastructural damage has only become apparent during 1999, with the disruption in supply links wreaking havoc for many businesses and farmers.

In view of these upheavals, the economies of Latin America and the Caribbean performed reasonably well when looking at the annual numbers. The region's GDP expanded by 2.3% in 1998, down from 5.2% in 1997. Although the growth rate contracted sharply, it remained higher than the 2% expansion in the world economy. However, the annual figures hide the fact that the economic problems in the region intensified as 1998 drew to a close, with output contracting in many countries during the final quarter.

THINGS STARTING TO LOOK UP IN 1999

As 1999 commenced, the slump at the end of 1998 for the Latin America and Caribbean region was expected to deepen. This sentiment became very strong when Brazil abandoned its crawling-peg exchange rate in mid-January 1999. It was feared the floating of the Brazilian real and its subsequent 40 percent loss in value would cause further destabilization in the region, especially for neighbouring countries, and would represent another episode in the global financial crisis that started in mid-1997. However, financial contagion failed to materialize in the region. The real's devaluation has not led to competitive devaluations by the other major regional players although pressures continue to exist.

The region's major economies have performed better than what was expected at the beginning of 1999. The continued policy discipline being exhibited by the region's major economies has contributed to greater resiliency and helped investor confidence to rebound faster than in previous downturns. The global economy has enjoyed stronger than expected growth, led by greater buoyancy in Asia. This better performance has firmed commodity prices which account for a large part of Latin America's and the Caribbean's economic activity. Brazil, which accounts for about one-third of the region's economic activity, is only expected to contract by 1 percent for 1999 compared to the projected 4-5 percent contraction expected at the start of 1999.

Even with these positive developments, the region's GDP is projected to remain constant for 1999, with a contraction a distinct possibility. If output falls, it would represent the first time annual output has contracted during the 1990s. While output for 1999 as a whole will likely stay flat, it appears a recovery is taking hold as the year draws to close. Annual economic growth will likely resume in 2000, but still remain below the region's potential. Significant downside risk still exists to the recovery owing to significant policy challenges remaining, to uncertainty about the direction of economic policy with the numerous upcoming national elections and to the possibility of renewed financial contagion.

GROWING REGIONAL VARIATION

In an area as large and diverse as Latin America and the Caribbean, economic performance has diverged significantly between different parts of the region. In 1998 and 1999, a sharp variation existed between South America and the rest of the region. During this time growth rates in South America have lagged. Exports have dropped significantly, with Chile and Peru suffering as they rely heavily on sales to Asia which plummeted. Moreover, the sharp slowdown in Brazil during the second half of last year had severe repercussions, especially for the Mercosur countries. On the other hand, the proximity of Mexico, the Caribbean and Central America to the USA, has allowed these countries to prosper from higher growth rates by taking advantage of the strong U.S. economy.

STILL ALONG WAY TO GO

At the same time that the outlook for LAC is more optimistic compared to the end of the 1980s, one must put these positive developments in perspective and recognize the region has many hurdles to overcome. Although great progress has been made in democratization and market reforms, they are still in their early stages of development and may be more fragile than in some other parts of the world. For example, if income inequality remains high or unemployment jumps, the general population may become disgruntled with market reforms². Widespread displeasure could derail, at least temporarily, reform efforts or cause governments to dilute measures in an effort to soften their negative consequences. Another problem area concerns the ability of the regulatory bodies to adequately oversee the operations of the private sector. While privatization programs have put a larger percentage of the region's production assets into private hands, the state institutions necessary to regulate private activity have not developed at the same speed.

Most of the economies will remain vulnerable to the current boom and bust cycles. The region's economies still remain dependent on commodities, especially for exports, which are highly susceptible to price fluctuations. Mexico has started weaning itself off of its dependence on commodities, as the implementation of NAFTA has promoted the development of a more technically advanced manufacturing sector. Mexico's success has only re-enforced the belief in the remaining Latin American and Caribbean countries that they need greater access to developed markets to spur the development of a more efficient and internationally competitive industrial structure.

Real Annual GDP Growth Rates					
Country	1996	1997	1998	1991-98	1999p
Argentina	4.4	8.0	4.9	5.8	-3.0
Brazil	2.9	3.8	0.2	2.8	-1.0
Chile	6.9	7.0	3.1	7.0	-0.4
Colombia	2.1	1.5	0.7	3.2	0.0
Dominican Republic	6.8	7.1	6.0	4.7	7.0
Guatemala	3.0	4.3	5.0	4.3	3.9
Haiti	2.8	1.5	3.2	-1.7	
Mexico	5.2	6.8	4.9	3.0	3.0
Peru	2.3	8.6	0.1	5.0	
Venezuela	-0.4	6.6	-0.2	3.1	-7.6
LAC	3.6	5.4	2.3	3.6	0.1

Country	Per Capita growth rates - constant 1995 prices	Per Capita GDP - constant 1990 Prices
	1991-1998	1997
Argentina	4.4	\$6,512
Brazil	1.3	\$3,239
Chile	5.3	\$3,957
Colombia	1.3	\$1,738
Dominican Republic	2.8	\$1,057
Guatemala	1.6	\$990
Haiti	-3.5	\$214
Mexico	1.2	\$3,347
Peru	3.1	\$2,209
Venezuela	0.8	\$3,267
LAC	1.8	\$3,025

Sources: Inter-American Development Bank, the United Nation's Economic Committee on Latin America and the Caribbean and the International Monetary Fund

Interesting links for market and business information:

Canadian International Development Agency
Department of Foreign Affairs and International Trade
Export Development Corporation

Related Documents:

Latin America and The Caribbean - Better Financial Health

Coming Soon:

Latin America and The Caribbean - Increasing Foreign Economic Associations
Latin America and The Caribbean - Canadian Business Ties

¹For a more complete discussion the Inter-American Development Bank has a site called Reconstruction and Transformation of Central America. In addition, the Canadian International Development Agency, also has a discussion of the damage and Canadian assistance programs.

²For a full discussion of income distribution see Facing up to Inequality in Latin America by the Inter-American Development Bank.

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