

Monday, August 22, 2011
Latin America Withstands Crisis

A resurgent Latin America swims against the current of recurring global crisis.

BY R. VISWANATHAN

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"This is the second time crisis affects the world, and for the second time Brazil is not trembling", declared Brazilian President Dilma Rousseff last week. "This is our time and we must help them (EU and US) solve their problems. Because when Brazil, Paraguay and Bolivia were in trouble a group of 'gringos' landed every time to tell us what to do..now it's their turn to listen to us. North-American and European leaders should know that a politician should have character, I think they are lacking political initiative" said former President Lula.

"When did the American dream become a nightmare? When will USA learn to control financial speculation, which has brought ruin on the world?", asked Argentine President Cristina Fernandez in a speech at the Buenos Aires Stock Exchange last month. She said, "The Americans thought that money just reproduces by itself, and only in the financial sector, without having to produce any goods or services". In 2002, the US Treasury Secretary Paul O'Neill had mocked Argentina saying, "They like it that way. Nobody forced them to be what they are." The Argentines ask who forced USA now?

The Latin American Schadenfreude is understandable. They used to be on the receiving end of lectures and taunts by the Europeans and Americans in the past. They are now in a position to return the favor. Crisis, Debt, Default, Deficit – the bad news from US and Europe since September 2008 does not seem to stop The prospects for them in the near future are not bright either. Contrast this with the Latin American bullishness. "Will 2011 be the dawn of the Latin American decade?" is the title of the webcast by Standard and Poors in January 2011. "Laying the foundation for a Latin American Decade," was the theme of the World Economic Forum on Latin America held in Rio de Janeiro in April 2011.

The decade of Latin America and the Caribbean - a real opportunity is the title of the new book of Luis Alberto Moreno, President of the Inter American Development Bank launched in July. "This can and should be the decade for Latin America," declared Colombian President Juan Manuel Santos during his speech on August 17 at the Economic Commission for Latin America and the Caribbean (ECLAC) headquarters in Santiago, Chile. Nuestra Hora (our time) is the title of a new book by Raul Rivera who talks about the new Latin American mindset of the Twenty First century. "The New Latin America and the New India- synergies and complementarities," is the title of the seminar to be held by the embassy of India in Buenos Aires on December 5.

In the olden days, if the United States and Europe caught a cold, Latin America would sneeze. Not any longer. During the global financial meltdown of 2008-9 not a single bank or financial institution collapsed in Latin America. The region weathered the storm without any serious damage and bounced back quickly with an impressive GDP growth of 6 percent in 2010. BBVA, the Spanish bank, in its "Latin America Report" of August, says that in spite of the global turbulences, the Latin American economy will expand by 4.8 percent (same estimate as those of ECLAC and World Bank) in 2011 and is optimistic about the region's growth possibilities in the coming years. Earlier this month, the World Bank's chief economist for Latin America and the Caribbean, [Augusto] De la Torre, remarked, "Latin American economies have developed strong immune systems against global contagion. Over the last 20 years the region has experienced a silent economic revolution that has provided a shield against external shocks, as we have witnessed in the previous crisis and those reforms are still in place. Latin America could absorb the financial shocks from the global turmoil through greater exchange rate flexibility, maintaining reasonable growth rates." The Latin American economies have become more resilient and less vulnerable to external shocks. The policy makers are better prepared now, after having having gone through hell in the olden days. According to the August 13 issue of The Economist, "they have more policy weapons available than most rich-world economies."

Some economists have suggested that the US and Europe could learn from the experience of Latin America, which has successfully resolved their debt crisis. The title of a blog of the Washington DC- based Council on Hemispheric Affairs on August 18 is "Mounting Debt: the U.S. could Learn from Latin America." The U.S. public debt to GDP ratio has increased from 60 percent in 2003 to 96 percent in 2010 while in the case of Latin America the ratio of external debt to GDP has decreased from 39.9 percent in 2003 to 19.2 percent in 2010. The main driver for the ongoing growth in Latin America is the domestic demand. The Inclusive Development policies have lifted 40 million people out of the poverty line in the period 2003-8 alone and the middle class has been expanding significantly. In the case of South America, the high Asian demand and the soaring prices of commodities have offset the negative impact of EU and USA.

According to the UN Economic Commission for Latin America and Caribbean (ECLAC), the GDP growth rates of some of the Latin American countries in 2010 were: Argentina (9.2 percent), Brazil (7.5 percent), Paraguay (15.0 percent) and Uruguay (8.5 percent), Panama (7.5 percent), Dominican Republic (7.8 percent) and Peru (8.8 percent). The growth figures of Latin America are not just one-time wonders. In the period 2003-8 the region had a consistent growth which was an annual average of over 5 percent. The growth is only one part of the new story of Latin America. The region has been strengthened by sound macroeconomic fundamentals of the economies and the prudent policy disciplines of the governments.

Here are some indicators of the fundamentals, from the July 2011 report of ECLAC:

Sustained economic growth is enhancing the economies' employment-generating capacities and the unemployment rate is expected to come down again in 2011, to between 6.7 percent and 7 percent. What is more, indicators for the first part of 2011 show formal wage employment rising as a proportion of total employment in several countries, suggesting that the new jobs being created are of better quality. Continued economic growth and jobs rising in both numbers and quality should usher in fresh gains in poverty reduction.

GDP growth was driven by strong domestic demand in the form of both consumption and investment and by buoyant external demand.

The inflation of the region in 2010 was 6.6 percent and is expected to increase to 7.5 percent in 2011 due to the higher global prices of food and fuel. The average inflation of the region is in single digit since 2003 and it had gone down to 4.7 percent in 2009.

The current account deficit of the region in 2010 was just 1.2 percent and is expected to increase slightly to 1.5 percent in 2011, although it was much lower at 0.4 percent in 2009. From 2003 to 2007, Latin America experienced an unprecedented current account surplus that averaged 1 percent of GDP.

Eleven countries of the region recorded nominal appreciation of their currencies in 2010 and early 2011, in particular Brazil, Colombia and Uruguay but also, to a lesser extent, Chile, Costa Rica, Mexico and Peru.

Foreign exchange reserves of the region reached a record level of \$715 billion in June 2011 from \$160 billion in 2002.

Total gross external debt of the region as a percentage of GDP declined to 19.2 percent in 2010 from 39.9 percent in 2003.

Net Foreign Direct Investment increased to \$70 billion in 2010 from \$38 billion in 2003.

Even with all these strong points, obviously Latin America cannot escape the adverse impact of the ongoing global crisis. Mexico and Central America, which are more exposed to the U.S. market will suffer more than South America which can count on continued exports of commodities to China and India. The region has also its own long term challenges such as poverty, education, infrastructure, corruption, urban crime, drug trafficking. The Latin American economies need to go further down the road of structural reforms.

The Argentines say that they ended up in a mess after implementing the IMF prescriptions in the eighties. After 2002, they refused to listen to IMF advice and did exactly the opposite of what they were told. The result speaks for itself. Argentina came out of its historic crisis of 2001-2 remarkably and has shown consistent growth since 2003 and is flourishing. The Latin Americans who transitioned from dictatorship to democracies in the eighties were advised to follow neoliberal policies by the Washington Consensus at that time. As a consequence, the Latin American situation became worse and the eighties came to be known as the Lost Decade for Latin America. This triggered an anti-neo liberal reaction and turn to the Left.

Having seen and suffered the consequences of the flaws and follies of the US and Europe, the Latin Americans no longer look up to them as role models. They are now diversifying their economic relations and reaching out to new markets. They are inspired by the success stories of India and China. They want to learn from the value system of these new Gurus. In his latest book Basta de historias (enough of the past), launched in Buenos Aires on 16 August 16, Andres Oppenheimer, the popular columnist of Miami Herald, has advised the Latin Americans to focus on education which has unlocked the potential of countries such as India.

The Latin Americans have now found their own home-made solution and their own path to development based on their experience. They are moving towards the centre with policies of Inclusive Development along with market-friendly approach. It is a pragmatic balance of pro-Favela and pro-Wall Street policies as practiced by the former Brazilian president Lula. Lulaism, as some describe, has become not only the new dominant trend but also a vote winner. Ollanta Humala, the radical leftist won the Presidential elections in Peru in June this year because of the promise that he would follow Lulaism. In 2009, [Jorge] Mujica, the ex-guerilla fighter of Uruguay, won the elections by assuring the voters that he would govern like Lula. Lulaism is also called as "Brasilia Consensus" as against the externally imposed "Washington Consensus". This is the new mindset of the resurgent Latin America. It is based on this solid foundation of new confidence, vision and optimism that a New Latin America is emerging.

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