2004 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

Terry L. McCoy

UNIVERSITY OF FLORIDA

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Preface

This is the sixth annual *Latin American Business Environment Report (LABER)*. The report was launched during a period of growing investor interest in Latin America that was fueled by expectations that the market-opening reforms of the New Economic Model (NEM) would deliver macroeconomic stability and sustained growth to the region. But economic performance cooled off, and financial volatility reappeared on the heels of the Asian financial crisis and Brazilian maxi-devaluation of 1999. Investors began to have second thoughts about Latin America and capital flows declined.

Entering the last quarter of 2004, Latin America is again growing. But is this another cyclical recovery or the beginning of the long-term growth promised by advocates of the NEM? Do current political developments mark a shift to the left and retreat from the NEM in favor of the closed, protectionist policies of the past?

These are some of the questions examined in the *2004 Latin American Business Environment Report.* It does not make recommendations, but synthesizes and interprets what has occurred in Latin America over the past 12 months in a manner relevant to business and investment decision-making. Readers may use the report for an overview of recent trends and future prospects at the regional level and/or for analysis of the business environments and outlooks of the 20 largest economies.

The 2004 LABER draws on a variety of publicly available sources to monitor developments in the region. I have revised the analytical framework to better account for long term changes. This and previous reports are available at http://www.latam.ufl.edu/publications/publisting.html. Writers may cite the report without permission, but are asked to acknowledge its use.

The Center for Latin American Studies and Center for International Business Education and Research (CIBER) at the University of Florida provided support for the preparation and publication of the *2004 Latin American Business Environment Report*. Paolo Spadoni assisted me in its preparation. Amanda Wolfe provided useful editorial suggestions. I alone, however, am responsible for the content and interpretation.

Terry L. McCoy, Director
Latin American Business Environment Program
University of Florida
tlmccoy@latam.ufl.edu

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2004 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

Terry L. McCoy, Director
Latin American Business Environment Program
University of Florida

EXECUTIVE SUMMARY

The environment for business and investment in Latin America has improved steadily over the past 18 months. It is the most attractive it has been since 2000. Regional GDP will increase by an estimated 4.5% in 2004 – the highest rate since 1997 – and 19 of the 20 economies covered in this report will grow. Inflation remains under control; exports are increasing; the debt is manageable; and local currencies are stable. Finally, there are indications that foreign investment is increasing after several years of sharp decline.

The leading determinant of Latin America's current upturn is the U.S.-led global recovery, although the Chinese economic boom is an added factor. Both translate into higher commodity prices and improved terms of trade for the region. Low global interest rates and increased capital flows are also benefiting Latin America. Internal consumption is now on the upswing. At the policy level, floating exchange rates, strong fiscal anchors and inflation targeting send positive signals. On the other hand, some governments are backing away from structural reform, most notably privatization in the face of popular mobilization and fragmented political institutions.

Country performances confirm the encouraging trend in the Latin American business environment. Twelve of the 20 countries (compared with nine in 2003) have stronger environments entering the final quarter of 2004. Colombian and Guatemalan environments have been upgraded from "problematic" to "mixed" because of significant breakthroughs. Two environments – Bolivia and the Dominican Republic –have been downgraded to problematic.

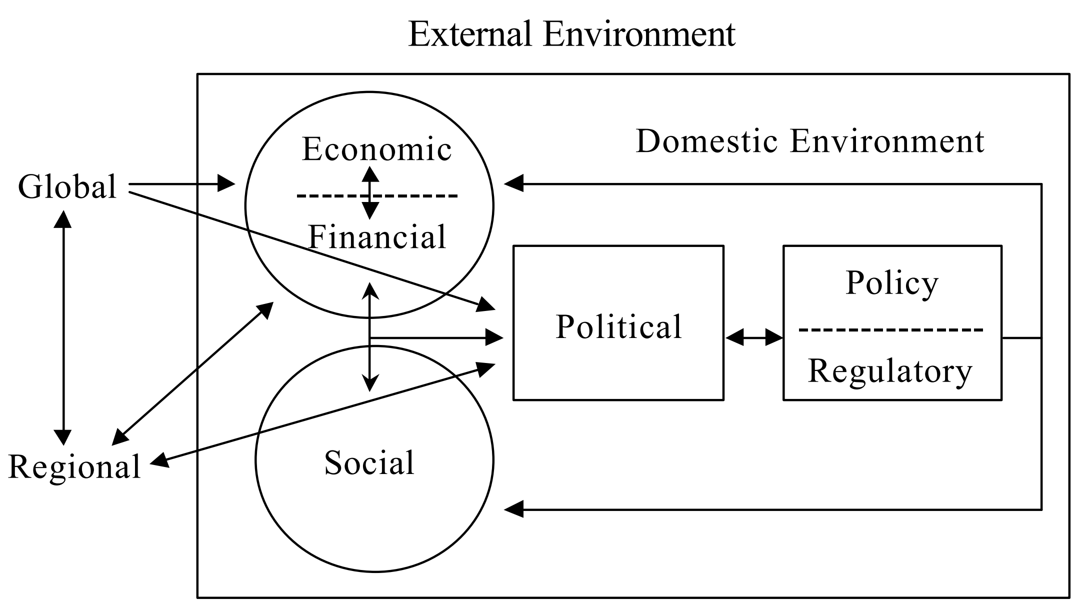
The outlook for the next 12-15 months is for continued strengthening of Latin America's business environments. Of the 20 countries, 13 are forecast to be more attractive within the next year. External keys to Latin America's performance are: continuation of the global-recovery; commodity (especially oil) prices; resumption of global and regional trade talks and the U.S. presidential election. Within the domestic environment, key determinants include: elections (in Chile and Honduras) and non-electoral politics in the Andean Republics; trends in unemployment and crime; and breakthroughs on reform, especially by the Brazilian government. Given this positive scenario, we would not expect to see a clear break with the policies of the New Economic Model, but instead revisions in the model to fit Latin America's evolving economic, social and political environments.

2004 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

I. INTRODUCTION

Thanks largely to the economic recovery that began in the middle of 2003 the business environment for Latin America continues to grow more positive. It is not yet as attractive as during the 1990s, nor is this positive trend uniform throughout the region. Furthermore, political developments continue to raise doubts about the political sustainability of the market-friendly economic reforms of the 1990s, while the collapse of multilateral trade talks over the past year caused concern about the future of regional integration in the Americas. Using the framework elaborated for systematically analyzing the regional and national business environments, the 2004 report summarizes developments over the past 12 months and assesses prospects for converting the current recovery into sustained growth and integrated development. We have broadened the policy environment to incorporate regulatory regimes (see Figure 1), and reconfigured some of the social and political indicators.

Figure 1
Latin American Business Environment: A Model



Following the Introduction, Section II summarizes major regional trends during 2003 and into much of 2004. Section III presents assessments of the 20 largest markets in Latin America, grouped by geographic region and regional trading bloc (see Map and Table 1). Section IV concludes with the outlook for the rest of 2004 and 2005. There are 12 tables presenting regional averages and country level data on key economic, social and political indicators at the end of the report, along with a list of selected sources on Latin American business news.

II. REGIONAL OVERVIEW

EXTERNAL ENVIRONMENT

Commodity markets and external capital flows have always been important determinants of the Latin American business environment. The reforms of the New Economic Model (NEM) were promoted in the 1990s to integrate the region even more closely – largely through non-traditional exports and greater foreign direct investment (FDI) – into the rapidly globalizing world economy. Although Mexico and Central America have successfully diversified into manufactured exports, the economies of South America remain tied to primary product exports. Both regions – because of weak domestic savings and investment – are sensitive to shifts in international financial markets affecting interest rates, country risk assessments and bond spreads.

Over the past 12 months, external trends have generally been favorable for Latin America. High commodity prices and low interest rates constitute a positive external shock conducive to renewed growth in the region.

***Global Developments* ↑**[1]

- The U.S recovery and China's economic boom are producing ***higher world commodity prices and improved terms of trade*** for Latin America (Figure 2 and Table 2). The U.S. has long been Latin America's most important market. By contrast, China only recently emerged as a major destination for the region's agricultural and mineral exports, most importantly from South America. The downside of growing Sino-Latin linkages is cheap Chinese exports to Latin America plus competition with Latin American producers for manufactured export markets (which hurts Mexico and Central America most) and foreign investment.

- ***Global capital markets are positive.*** Low interest rates and renewed investor interest in emerging markets make it easier and cheaper to issue corporate and sovereign bonds. However, Latin America is the only region in the world where FDI fell last year (Figure 3 and Table 3). Although they should pick up in 2004,

[1] Symbols are used here to indicate overall trends over the past 12 months: ↑ improvement; ↓ decline; = no significant change.

FDI flows will remain well below what they reached in the mid-1990s when fueled by privatization and mergers and acquisitions.

Figure 2

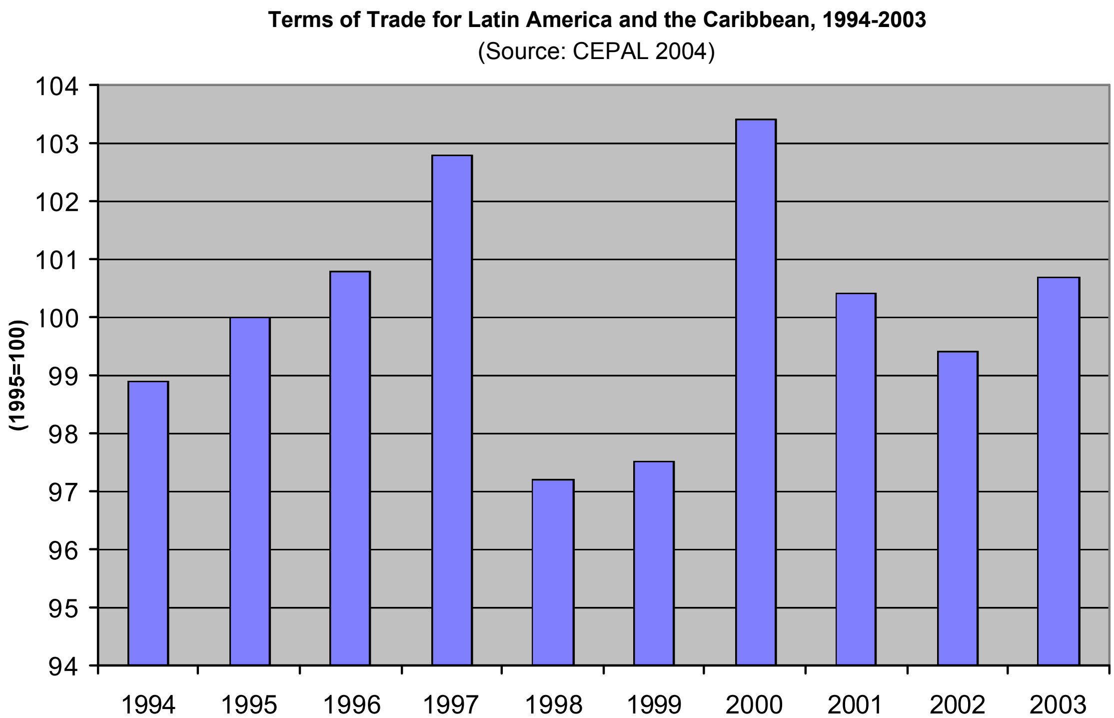
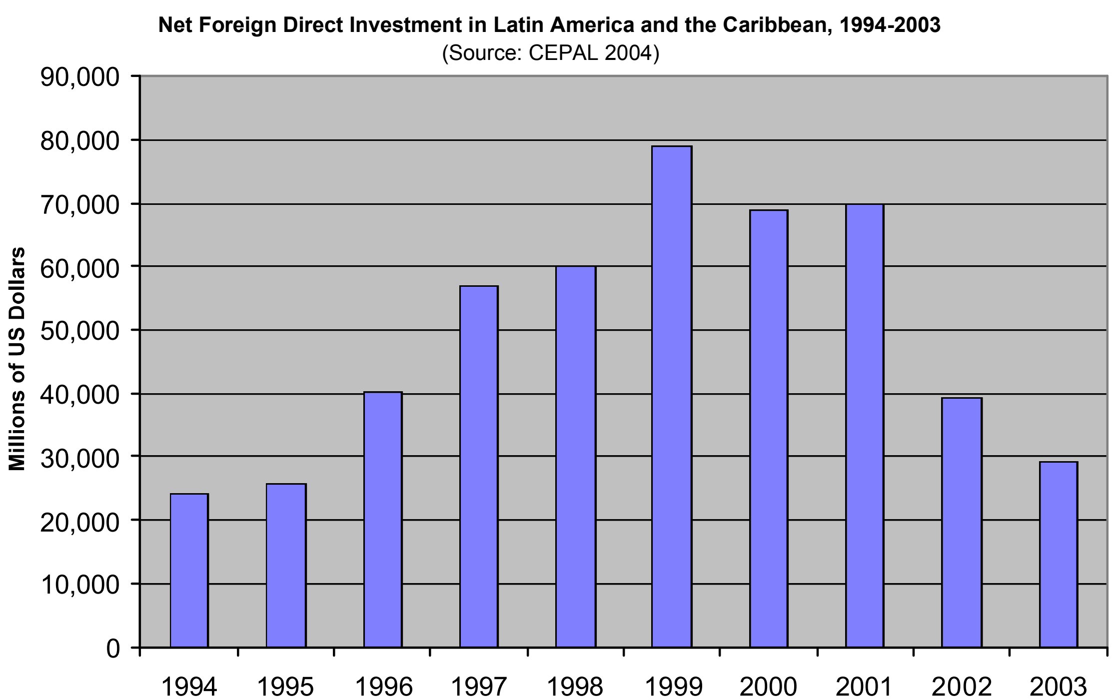


Figure 3



- ***WTO subsidies agreement and rulings may break impasse in global trade talks.*** The WTO Doha round collapsed in August 2003 in Cancun when the G-7 nations and Group of 20 developing nations were unable to resolve their differences regarding agricultural subsidies and the so-called "Singapore issues." WTO arbitration rulings against U.S. cotton subsidies and EU sugar subsidies put pressure on the G-7 countries to reduce subsidies, and in early August the WTO reached a framework agreement on eventually eliminating subsidies.

.

Regional Developments =

- ***FTAA negotiations are at a standstill.*** The U.S. and Brazil reached a compromise at the November 2003 FTAA ministerial in Miami to pursue negotiations for a scaled back market access agreement, but have been unable to agree on a new agenda. The next Trade Negotiating Committee meeting has been postponed repeatedly. In the face of stalled FTAA negotiations, the Bush administration is aggressively pursuing bilateral free trade agreements (with Chile, Central America, three Andean countries and Panama) without assurance of congressional approval. For its part, Brazil is pushing not only for a merger of MERCOSUR and the Andean community into a South American free trade bloc but also a formal agreement with the EU. The WTO agreement on subsidies may help jump-start the FTAA negotiations.

- In the shadow of the war in Iraq and November U.S. elections, ***U.S.-Latin American relations continue to drift.*** Regardless of the outcome of the election, it seems unlikely that Washington will give the priority to the region that George Bush promised following his 2000 victory.

- Governments and regional organizations in the hemisphere are giving greater attention to how ***to harness remittances for development***. According to an Inter-American Development Bank study, Latin Americans working in the U.S. send around $30 billion a year back to their home countries. Remittances are the first or second source of foreign exchange earnings for many economies, but they are not being as effectively utilized as they might be.

DOMESTIC ENVIRONMENT

Largely because of renewed economic growth, the Latin American domestic environment is more attractive than it has been since 2000 when the region experienced a brief but aborted recovery. However, questions persist about the sustainability of the current economic recovery, deepening social pathologies, the frail nature of democratic governance and the failure of governments to deepen policy and regulatory reform.

Economic and Financial Performance ↑

The good news on the economic front is twofold: Latin America is experiencing a broad based economic recovery while at the same time maintaining macroeconomic stability. Financial performance is also encouraging, although hindered by structural problems.

- Although lower than in the 1990s, and lower than in Asia or what is needed to reduce poverty, ***growth has accelerated*** to its highest annual rate since 1997 (Figure 4). As Table 4 demonstrates, 19 of the 20 economies are predicted to grow in 2004 with the highest rates in those countries recovering from deep downturns (Venezuela, Argentina and Uruguay). The current upturn is export-led, with domestic demand increasing.

- ***Inflation is not a problem.*** The regional rate, which declined in 2003, is expected to fall again in 2004 (Figure 5). Only Venezuela and the Dominican Republic have serious cost of living increases (Table 5).

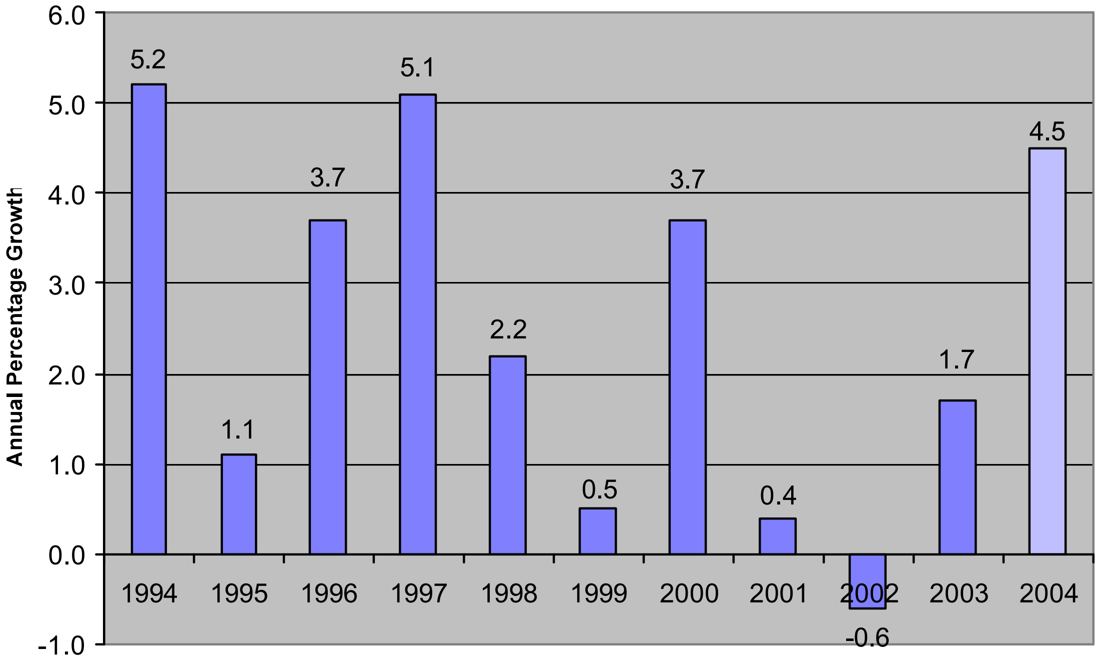
- Surging commodity prices are fueling ***export growth***, especially for South America, and generating a current account surplus in 2003 (Figure 6 and Table 6). Although the economic recovery may lead to increased imports in 2004, strong commodity prices should sustain healthy current accounts.

- ***Financial markets are performing well on the debt side.*** In 2003 bond spreads narrowed considerably. Latin American debt placement continues to be strong in 2004 with both governments and companies taking advantage of low interest rates and spreads to refinance debt and raise new money. Latin American equity markets turned in their best performance since 1991 in 2003. The Brazilian stock market finished up 130% in dollar terms; the Chilean, 83% and the Mexican, 31%. Local equity markets have cooled off, and the region continues to suffer from a corporate reluctance to finance through public stock offerings. Likewise FDI is weak compared to past performance, although it should recover somewhat in 2004.

- While ***total external debt increased slightly, debt-to-exports ratio fell*** in 2003 (Figure 7, Tables 7 and 8). Argentina, which has yet to come to agreement on a rescheduling with its bond holders, and the Dominican Republic, struggling to avoid default and comply with terms of its IMF agreement, present the most troubling scenarios.

- Latin American ***currencies are stable***, the Dominican peso being the most notable exception (Table 9). Venezuela, favored by high oil prices and revenues, has been able to maintain a fixed exchange rate, while all the other economies feature the prescribed independent, manage floats or are dollarized. Honduras, Peru and Uruguay signed IMF agreements in 2004.

Figure 4
Regional GDP Growth Rates for Latin America and the Caribbean, 1994-2004
(Source: CEPAL 2004)



Average Annual Inflation Rate for Latin America and the Caribbean, 1994-2004
(Source: CEPAL 2004)

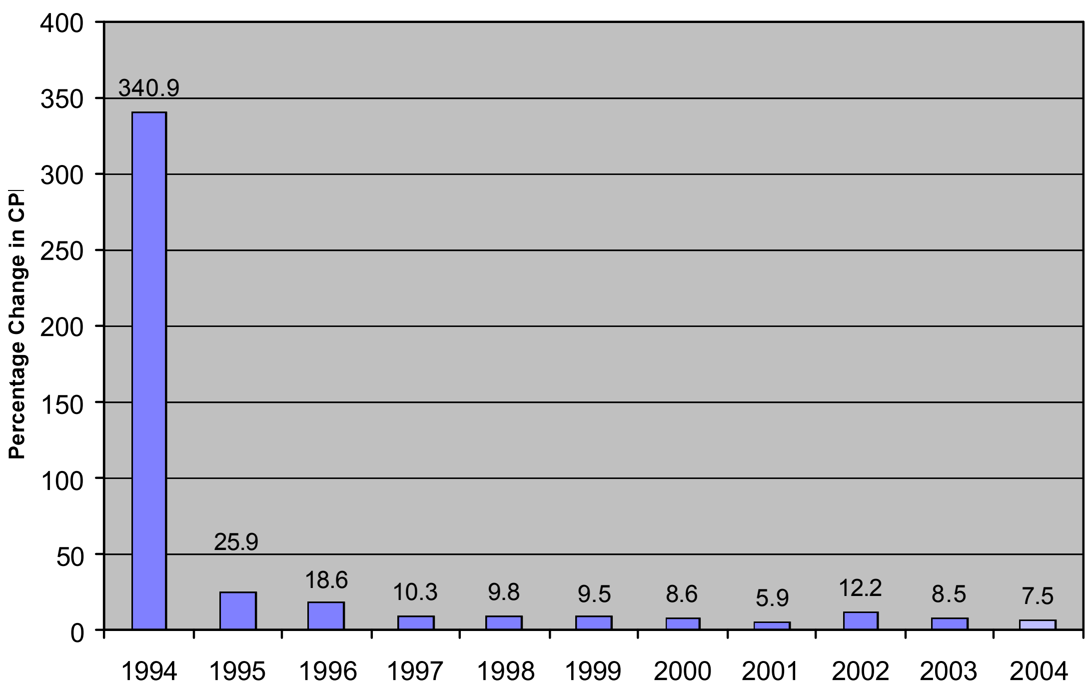


Figure 5

Figure 6

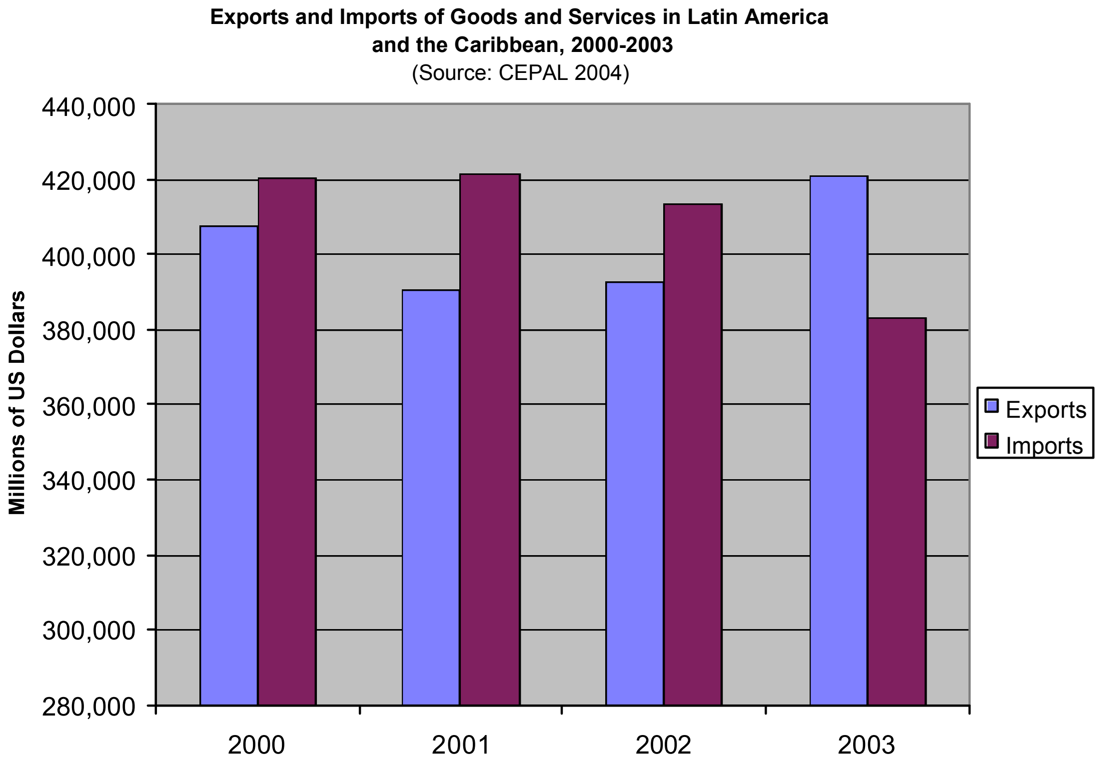
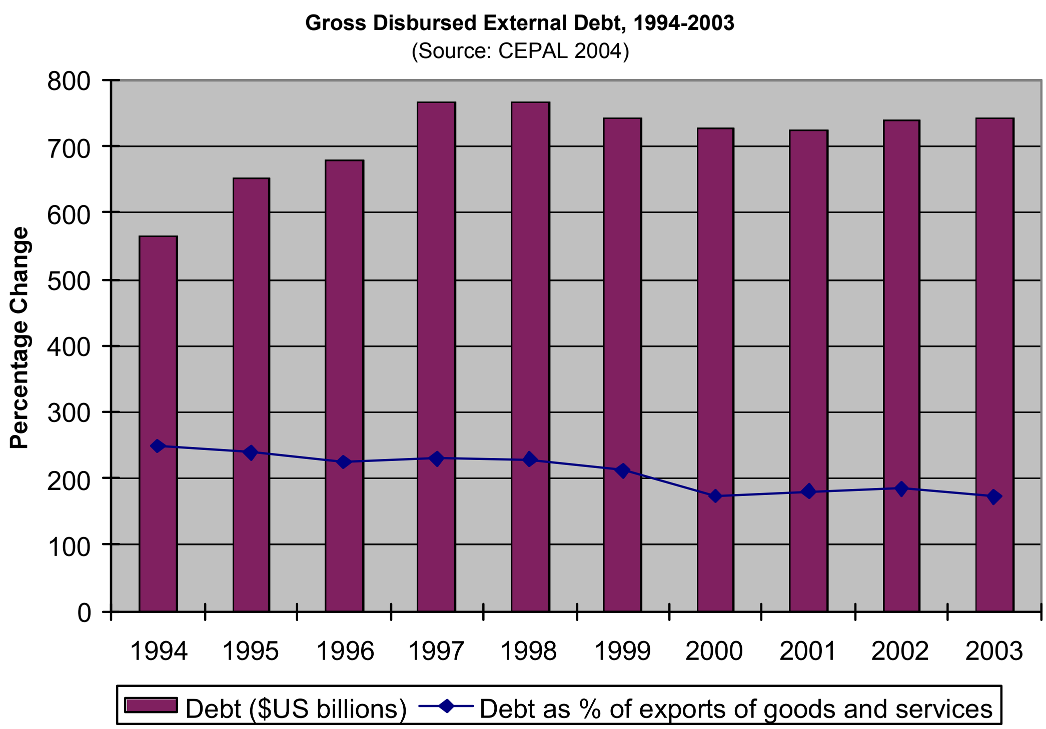


Figure 7



Social Welfare ↓

If sustained, the current recovery should eventually translate into more jobs, rising incomes and poverty alleviation. It is, however, unlikely to reduce the region's deep inequality and structural unemployment (Table 10). Regional per capita income will only recover to its 1997 level by the end of 2004. These problems require a more frontal assault about which there is much discussion in the region but little consensus on concrete policy measures. There is, in contrast, an emerging consensus in civil society on the need for serious action to combat the rising crime and violence affecting every country in the region.

- According to a 2004 World Bank study, Latin America is a region of ***high socio-economic inequality***, whether measured by income, wealth, access to services or availability of opportunity. Brazil, Latin America's largest country, is one of the most inequitable societies in the world. Even Uruguay, the region's least unequal country, is more unequal than the most inequitable society in Eastern Europe.

- Studies also confirm what residents and visitors know from first hand experience: Latin America is succumbing to ***serious levels of crime and violence.*** Homicide, kidnapping and armed robbery are growing deterrents to foreign investment. Massive demonstrations in Argentina and Mexico suggest that crime is becoming a major political issue, and governments must address it, or pay the price at the polls.

Politics =

The political environment (Table 11) features contradictory trends. Democracy and constitutional government are still the norm, but in some countries, democracy is ineffective and precarious. Furthermore, public opinion surveys suggest that popular support for democracy is thin.

- Elections held thus far (El Salvador, Guatemala, Panama and the Dominican Republic) have produced ***presidential victories for centrist candidates,*** which could be interpreted as an endorsement for continuation of the policies of the NEM, at least in those countries. The current leader in the polls for Uruguay's October election, on the other hand, is the candidate of a leftist coalition critical of neo-liberal economics.

- ***The Venezuelan recall referendum could have regional repercussions.*** It offers hope to leftist parties and strengthens Hugo Chavez's standing as a regional leader challenging the NEM.

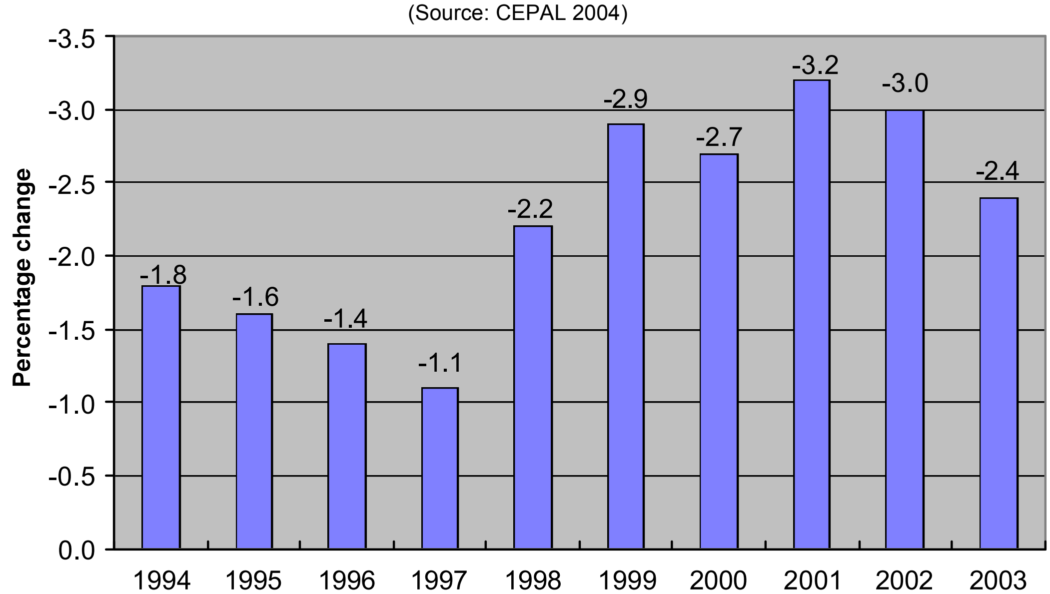
- A disturbing pattern of ***interrupted democracies*** has emerged. Presidents are elected, but then forced – in Ecuador, Argentina and, most recently, Bolivia – from office before their terms end. Venezuela has had three unsuccessful but unsettling *coups d'etats,* while Peru and Guatemala have put down threats to constitutional rule. Indigenous challenges, sometime violent, to constitutional order have become serious in the Andean region.

- ***Corruption remains a serious problem*** for business throughout the region (Table 11). Only Chile has managed to achieve and maintain an environment relatively free of corruption.

Policy/Regulatory Environment =

Latin American governments, with few exceptions, have effectively consolidated orthodox macroeconomic management around the trinity of floating exchange rates, strong fiscal anchors and inflation targeting. They have been less successful in deepening market-opening structural reforms and institutional building in spite of widespread recognition of the need to advance beyond the first generation of reforms associated with the so-called Washington Consensus.

Figure 8
Fiscal Deficit/Surplus, 1994-2003 (% of GDP)
(Source: CEPAL 2004)



- After five years of exceeding the recommended two-percent-of-GDP limit, ***fiscal deficits are falling***, although there is considerable cross national variability (Figure 8 and Table 12).

- While there is no clear region wide movement to ***deepen structural reform***, there are some noteworthy country breakthroughs, especially on pension reform.

III. COUNTRY PROFILES

NAFTA REGION

This year marks the tenth anniversary of the North American Free Trade Agreement. While analysts debate its impact on jobs, growth, investment and the relative benefits for its three members, the agreement is a fact of life. It has significantly institutionalized an increasingly integrated North American economy and transformed U.S.-Mexican relations.

Currently, the most contentious trade dispute concerns U.S. and Mexican sweetener markets. Mexico has taken steps to cut off the flow of U.S. high fructose corn sweeteners, while U.S. sugar producers maneuver to protect domestic markets from Mexican sugar imports. NAFTA calls for free trade in all sweeteners by 2008.

Immigration and remittances may be the most important components of the U.S.-Mexican relationship from the Mexican perspective. In January 2004, President Bush proposed a guest worker program that would legalize the status of Mexicans (and other foreign workers) in the U.S. Although the ultimate fate of his proposal is in the hands of Congress, the President's gesture is a significant step toward rebuilding bilateral relations, which lost Washington's attention following the 9/11 attacks.

Mexico*↓↑[2]*: Renewed growth helping offset effects of weakening presidency.

- ***Economy is recovering.*** After three years of virtually no growth, GDP should increase by around 4% in 2004, while inflation is not a threat. Commercial banks, increasingly foreign owned, are under pressure to increase private sector lending, which is perceived to be an obstacle to greater growth.

- Although FDI fell again in 2003, the ***external financial position is healthy.*** High oil prices have boosted terms of trade and helped offset the decline in manufacturing exports from the border *maquiladoras*, which are now growing

[2] The symbols at the beginning of each country profile indicate the following trends: ↑ business environment improved, ↓ business environment deteriorated, = no significant change since 2003 report.

and adding jobs in the wake of the U.S. recovery. Mexico's external debt burden is manageable, and its credit ratings high.

- ***Violent crime, kidnappings and police corruption*** are disrupting the social environment and provoking middle-class civil society protests.

- ***President Fox is becoming a lame duck*** with little likelihood of recapturing his political influence and national leadership. State and municipal elections produced victories for the opposition PRI in PAN strongholds. Divisions within each of the three major parties heighten the probability of growing political stalemate as the 2006 presidential election approaches.

- ***Macroeconomic policy is secure but structural change not likely*** in the remaining two years of Fox administration. In August, Congress did approve reforms to the debt-laden state pension system (earlier regulators gave private pensions funds more leeway to invest in equities and foreign securities), but the President has been ineffective in building support for meaningful tax reform and opening of the energy sector to private participation. Without them, observers fear declining oil production and power shortages.

CENTRAL AMERICA

The environment for business in Central America has strengthened over the past year. Five of the environments are more attractive, and the sixth, Costa Rica, continues to be fundamentally attractive, even though it did not improve over last year. In addition, the region is in the final stages of formalizing an economic partnership with the U.S., its most important market and source of investment capital. However, with the exception of Costa Rica, these are poor countries with a history of political instability and deep social problems. Current advances represent incremental progress, but could easily be reversed with serious consequences for business and investment in the region.

The U.S. and five Central American nations concluded negotiations of a free trade agreement in late 2003. Costa Rica pulled out at the last minute, but later re-joined the agreement after additional negotiations on service industries and agriculture. Through parallel negotiations, the Dominican Republic was incorporated into the agreement. Although not a party to DR-CAFTA, Panama is negotiating an FTA with the U.S.

Central American leaders are counting on DR-CAFTA to spur higher growth through increased trade and investment. It represents both a replacement for the one-way market access provisions of the Caribbean Basin Initiative (and its successor) for Central America and another important step in building an integrated North American economy. It also comes as the Multi-Fiber Arrangement is about to expire, potentially subjecting the increasingly linked U.S. and Central American apparel and textile industries to greater international competition, especially from China. Finally, it would mean closer integration among the five Central American members.

Failure to ratify the agreement would be a significant setback for Central America, for U.S. policy in the region and for the FTAA process. The U.S. Congress will not take it up until after the November 2004 election, the outcome of which may well determine the fate of DR-CAFTA, since – even though there is local opposition – ratification is likely in Central America. Democrat candidate John Kerry and his supporters call for revisiting the provisions regarding labor and the environment.

On the political front, three of the six Central American countries elected new presidents in 2004. In each case, the winner was a pro-market candidate. These peaceful transfers of power and moderate orientation of the new administrations underline the process of democratic consolidation in the region. The election in Guatemala was particularly important in this regard since the alleged corruption and links to organized crime of the previous government threatened to destabilize the region. In contrast to political progress, and a threat to it, is the surge in gang-related violence and criminality. Governments are acting individually and in concert to confront the problem, thus far without much success.

Costa Rica=: Most attractive environment in Central America largely unchanged.

- Because the Central Bank tightened monetary policy to dampen inflationary pressures generated by rising oil prices, ***economic growth will slow down in 2004 and 2005***. Costa Rica had one of the highest growth rates in the region in 2003, and one of the highest sustained rates over the previous decade.

- Consistent with its export-led development strategy based on diversification into non-traditional, high tech exports and increased FDI, the government actively pursues global, regional, sub-regional and bilateral trade agreements. ***DR-CAFTA is important to reviving exports and FDI,*** both of which have been flat in recent years.

- Since President Pacheco and the opposition-controlled National Assembly have been at loggerheads for two years over a fiscal reform package that would increase tax revenues, his government has proposed an austerity budget. This is one result of the ***ongoing executive-legislative standoff,*** which could complicate ratification of DR-CAFTA. The debate – and need to extend the negotiations – underlines ongoing opposition to further liberalization and privatization of the economy.

El Salvador↑: Election settles political and policy environment.

- ***Economic growth is unsatisfactory.*** It has not exceeded 2.0% a year since 1999, which means that per capita income has been stagnant for five years. Inflation is expected to increase in 2004.
-
- With an investment grade credit rating, the ***external position is satisfactory***, although FDI decreased and the foreign debt burden increased in 2003. El Salvador probably has more riding on ratification and implementation of DR-CAFTA than any of the other signatories. Remittances are crucial to the country's finances

- ***Gang-related violence*** continues to weaken the social environment. The new administration of President Antonio Saca has sponsored a draconian anti-gang law that has attracted the criticism of human rights organizations.

- In the face of a credible challenge from the leftwing FMLN, the March presidential election produced a ***clear victory for the governing ARENA party.*** The means continuation of the market-friendly policies pursued by the last three administrations, although the FMLN has a presence in Congress and in municipal offices.

Guatemala*↑*: Improved environment with election of new president.

- ***Economic performance is acceptable if not dynamic***. Low growth during the past four years means stagnant per capita income for a country with one of the lowest standards of living in the region.

- ***Falling FDI and persistent balance of trade and current accounts deficits*** weaken the external position.

- Although the election has reduced officially sanctioned organized crime, the social environment suffers from widespread poverty and violent crime. Guatemala has the ***worst Human Development Index rank in Latin America*** (Table 10).

- Conservative businessman ***Oscar Berger easily won*** the December 2003 presidential runoff. Former dictator Efraín Ríos of the discredited FRG governing party was eliminated in the first round. President Berger forged a "governability" pact between his GANA party and two opposition parties (UNE and PAN) for control of Congress, and he named independents and members of the opposition to government posts.

- The new administration has promised to pursue a ***formidable array of policy initiatives:*** implementation of the 1996 peace accords; investigation and prosecution of human rights violations and corruption; fiscal reform and combating violence.

Honduras*↑*: IMF agreement strengthens environment.

- ***Economy performance is adequate.*** Inflation has been steadily declining, and growth is up in 2003 and 2004, although still too low.

- After committing to a package of austerity measures, the government finally came to terms with the IMF on a ***three-year Poverty Reduction and Growth Facility loan*** of $300 million. Honduras previously qualified for an IMF Heavily Indebt Poor Countries (HIPC) facility that will enable it to lower its foreign debt. FDI increased in 2003.

- The tragic prison fire in May called attention to ***gang problem and inadequacy of public resources*** for dealing with it.

- ***Maneuvering for 2005 presidential election*** is increasingly dominating politics and complicating task of President Maduro who must work through opposition-controlled congress.

Nicaragua*↑*: Weak environment continues to improve.

- Although still not dynamic, ***economic performance has improved***. Growth is up and inflation down.

- In an important breakthrough the IMF and World Bank awarded ***a $4.5 billion debt relief package.*** This not only allows Nicaragua, which has the highest debt burden in Latin America (Table 8) to re-allocate resources from debt-servicing to investment, but it also confers the IMF's seal of approval to the government's economic policies, which lowers country risk for private investors. FDI increased in 2003.

- With former president Alemán removed from the scene, President Bolaños is more firmly in control and the ***political environment more stable.***
- In order to qualify for HIPC debt relief, the government adopted an ***economic reform package*** aimed at macroeconomic stabilization, more efficient delivery of social services, strengthening rule of law and improved infrastructure development.

Panama*↑*: New administration opens possibility of changed environment.

- Following a two-year slump, ***economic growth is up*** over 4.0% in 2004 for the second year in a row.

- The U.S. is ***negotiating a bilateral FTA*** with Panama. FDI jumped in 2003.

- ***High unemployment (nearly15%) and persistent poverty*** weaken the social environment.

- ***Martín Torrijos takes office with high expectations***. He won the presidency in a landslide victory, and his party (PRD) controls congress and a majority of municipal governments. He will be challenged to balance disparate elements of his party.

- ***Issues facing the new government*** range from expansion of the Panama Canal to overhauling the nearly bankrupt social security system. International investors and Panamanians also expect it to take moves to combat corruption, which is rampant. The outgoing administration left Panama in a weak fiscal situation.

CARIBBEAN

The most noteworthy development in the Caribbean region was the Haitian crisis and subsequent disagreement between CARICOM and the U.S. over recognition and support of the new government. Although there is no question that the disagreement strained political relations with Washington, it did not significantly affect economic ties. CARICOM is simultaneously conducting trade negotiations related to the WTO, FTAA and the EU. Its principal objective is to secure special concessions for its members as small, developing economies. An active 2004 hurricane season is likely to have significant economic and social consequences for several of the Caribbean islands.

Dominican Republic*🡇*: New administration confronts ailing economy and weak international financial position.

- ***Economic performance continued to deteriorate.*** Following a decade of sustained expansion, GPD will contract for a second consecutive year, while inflation is forecast to again exceed 40% in 2004, the highest in Latin America.

- ***External position is precarious.*** In late July, the country missed a payment on an international bond, which puts it on the verge of defaulting on its foreign debt that ballooned to over $5 billion under the Mejía administration. The IMF is pressing the new administration to formulate with a coherent plan – that will surely involve austerity measures – for dealing with the economic crisis and servicing the debt. The Dominican peso lost over 75% of its value vis-à-vis the dollar over the past 12 months, and FDI dropped again. The only bright spot is successful conclusion of negotiations with the U.S. to incorporate the Dominican Republic into CAFTA, although this agreement must still receive U.S. congressional approval to take effect.

- Economic stagnation, high inflation, growing unemployment, increased poverty and constant power blackouts have ***generated considerable social unrest and protest*** over the past year.

- After disruptive maneuvering by President Mejía to run for re-election, voters delivered ***a decisive victory to former President Leonel Fernández*** (1996-2000) in the May election. Congress, however, remains in the hands of the PRD opposition until May 2006.

- ***The policy challenge facing the new government is formidable***: to satisfy IMF and creditor concerns and, at the same time, address the social needs of Dominicans, and to do it expeditiously. The most pressing issues are narrowing the fiscal deficit, reaching agreement with the IMF on its pending review and ameliorating the chronic energy crisis. To be successful, the new government must have international understanding and support.

Jamaica*🡅*: Changes may help economy break out of low level equilibrium.

- The ***economy continues to record modest growth***, while inflation jumped to double digits in 2003. Tourist earnings reached record levels in 2003.

- Although the external debt burden is high, Jamaica has ***not had to resort to an IMF loan since 1996.*** The Fund will conduct an intensive review in fall 2004. FDI is flowing into the tourist development and the bauxite industry, which is benefiting from rising global demand.

- ***Gang-related violence with political roots*** is a structural feature of the social environment.

- ***Two major parties are renewing leadership*** for next election, which must take place no later than 2007.
- Government has ***rebuilt the financial sector,*** which collapsed in the late 1990s, but at considerable cost to the treasury and economic growth.

Trinidad & Tobago*🡅*: Most dynamic economy in the Caribbean aided by political stability**.**

- ***Economic performance is solid.*** Over the past decade, T&T has had the second highest growth rate (5.1%) in Latin America.

- ***Soaring demand for liquefied natural gas*** has boosted exports and FDI in the industry.

- T&T has not escaped the ***wave of violent crime and kidnappings***.

- Despite a razor thin parliamentary majority, Prime Minister Patrick Manning's government has been able to achieve ***political tranquility*** to complement economic strengths.

ANDEAN SOUTH AMERICA

Andean South America continues to present the most problematic of the five sub-regional business environments in Latin America. However, booming global commodity prices have helped revive growth in the region. More significantly, Andean countries that were of most concern last year – especially Colombia but also Venezuela – are doing better this year while Bolivia, Peru and, to a lesser extent, Ecuador, have deteriorated. The most troubling development in the "southern crescent" of the Andes has been the emergence of interrupted presidencies. Over the last five years, popular protests have forced elected presidents in all three countries from office before their terms were over.

The most recent interruption occurred last October in Bolivia. Traditional institutions are proving to be incapable of effectively incorporating the marginalized indigenous peoples seeking a meaningful political voice, and political violence is on the rise.

On the integration front, the Andean Community and MERCOSUR took additional steps toward creation of a South American FTA, while the U.S. is negotiating an FTA with Colombia, Ecuador and Peru, which would deepen integration among the three Andean partners as well as institutionalizing ties with their most important market. Bolivia's revived campaign to reclaim sovereign access to the Pacific Ocean through Chile has placed a strain on Andean relations.

Bolivia↓: Referendum gives President breathing room but environment remains unsettled.

- Considering the turmoil of the past year, ***economic performance is acceptable,*** driven by Bolivia's favorable terms of trade.

- Domestic politics again ***complicate the external position***. Political opposition scuttled the recommended Chilean route for exporting natural gas to the U.S. and Mexico, which puts this crucial project – and the foreign investment and increased export revenue it would bring – in jeopardy. Furthermore, the July referendum creates uncertainty regarding foreign participation in the potentially rich energy sector. FDI fell by nearly 50% in 2003. Following its failure to provide the ousted Sánchez de Losada government with timely financial assistance, the international community created a "friends of Bolivia" group to support the new government.

- Mobilization of the two large indigenous communities and a growing geographic schism between the eastern lowlands and western highlands added to the fact that Bolivia is the poorest, least developed country in South America produces ***acute social stress.***

- Violent confrontations between demonstrators and security forces led President Sánchez de Losada to resign in October 2003. Successor, Vice President Carlos Mesa, has proven to more effective in managing the ***volatile political mix*** that brought the previous government down, but Bolivia's fractious parties and obsolete government institution make it difficult for him to last out the term that ends in 2007.

- ***Policy environment is highly uncertain.*** The referendum repeals the 1996 law that opened the gas sector to private participation. The Mesa government must now draft – and win congressional approval for – a new energy policy package that strengthens the government's role (reviving the ineffectual YPFB state oil company) without scaring off desperately needed foreign investment. It must also come up with a politically acceptable and economically feasible alternative to the Chilean route for gas exports.

Colombia*🡅*: Advances in security promoting economic recovery.

- ***Economy performance is encouraging***. Following five years of stagnation, GDP is in the second year of moderate expansion propelled by stronger exports, internal demand and domestic investment, while inflation is acceptable by Colombian standards.

- ***External position is stronger.*** Terms of trade, exports and the peso are all up. FDI fell in 2003, but will be higher in 2004 as increased security rebuilds investor confidence in Colombia. Prospects for a U.S.-Colombia trade agreement – a reflection of Washington's strategic stake in Colombia – also reassures investors.

- ***Dangerous social environment is improving***. Although still high, the number of homicides, kidnappings and internal refugees continues to decline as does drug trafficking.

- Despite voter rejection in the October 2003 national referendum of a fiscal reform package, ***President Uribe enjoys wide support and exercises strong leadership.*** Colombia was on the verge of being a failed state in 2002. Now two years into his term – although not without setbacks – the President's multi-front campaign has yielded important advances in subduing the guerrillas and re-establishing the authority of the state throughout the country.

- The government must find a politically acceptable way to ***reduce the fiscal gap***, since the referendum closed off its preferred options. It has proposed a package of reforms for the public pension system, but congressional approval seems unlikely. According to the World Bank's *Doing Business in 2005,* Colombia did the most of any Latin American country to improve its business and investment climate.

Ecuador =: Fragmented society and weak political institutions undermine environment.

- ***Macroeconomic indicators are positive but misleading.*** GDP growth and low inflation are largely a function of high oil prices and dollarization respectively rather than solid fundamentals, and the latter hurts non-oil exports.

- ***External position is on balance negative.*** Thanks to high oil prices, exports and FDI are up. Negotiations for an FTA with the U.S are also positive. However, Ecuador's agreement with the IMF collapsed in March because of persistent non-compliance, and the country faces growing likelihood of having to renegotiate its foreign debt or enter into default for the second time since 1999.

- ***President Gutiérrez holds on to power, but his political position is weak.*** With his standing in public opinion polls as low as 15%, the President has sacrificed ministers and policy initiatives to avoid defeat in the face of popular demonstrations and the opposition-controlled congress.

- Gutiérrez, like his predecessors, has been ***unable to advance needed reforms,*** as congressional defeat of his oil-sector privatization bill in June and collapse of the IMF demonstrate.

Peru =: Discredited political class and unsettled politics detract from economic performance.

- ***Economy is growing at 4.0% while inflation is around 3.0%***, both notable achievements. The Camisea natural gas operation, inaugurated in August, will significantly lower business and residential energy costs on the coast as well as generate a stream of natural gas exports over the 40-year life of the project.

- ***External position is generally favorable.*** Exports are up; external debt isdown slightly and the currency is stable. Peru became an associate member of MERCOSUR and is currently negotiating an FTA with the U.S.

- Mob lynching of a highland village mayor and endless protests mark the social environment, and emphasize ***failure to integrate mobilizing indigenous peoples*** into national life.

- Hounded by scandals, cabinet turnover, demonstrations and political ineptitude, ***President Toledo draws little support in opinion polls, and his party lost control of Congress*** in July. While it now appears that Toledo will likely last out his term, because of the low repute accorded all politicians, he will not be an effective leader.

- Fragile political standing ***limits the President's ability to articulate and deliver a coherent policy agenda***, although his macroeconomic policy has been steady and effective.

Venezuela↑: Strengthened president and recovering economy improve problematic environment.

- ***Economy is bouncing back.*** Surging oil revenues fuel massive increases in government spending that in turn boosts consumer demand. GDP is forecast to grow 12% in 2004 helping to compensate for the accumulated 20% two-year contraction. Inflation will again be in the 20-23% range.

- ***External position has improved.*** Following the referendum, Standard & Poor's – citing increasing political stability, a large current account surplus, strong reserves and lower external debt – upgraded Venezuela's credit rating. Record high oil prices are not only fueling the recovery but also major new FDI in the energy sector. Unsettled U.S.-Venezuelan relations weaken the external position.

- ***Large public spending programs*** are dealing with some of the more serious social programs, at least in the short run.

- Referendum was a victory for President Chávez but ***political environment remains unsettled.*** Two questions must now be answered: How will the President use the unprecedented power he has accumulated, and what will the defeated opposition do now?
- ***What is next for the Bolivarian revolution?*** How will the government balance the rising expectations of its lower class supporters against those of foreign investors and the private sector. Of immediate concern is the overvalued Bolivar and tight exchange controls.

BRAZIL AND THE SOUTHERN CONE

The business environment in Brazil and the Southern Cone region of South America continues to strengthen, although the region's two dominant economies – Brazil and Argentina – are moving along somewhat diverging paths. While the former steadfastly pursues an orthodox policy agenda pleasing to the international financial community, the latter has yet to resolve issues of importance to the IMF and foreign investors. There is greater uncertainty surrounding the Argentine environment, and the asymmetries periodically affect MERCOSUR relations.

The governments of Brazil and Argentina are working to strengthen MERCOSUR as a political-economic alliance, expand it into a South American free trade agreement and negotiate agreements outside of the region. Presidents Lula and Kirchner meet with their MERCOSUR counterparts on a regular basis and relations within the bloc are generally harmonious, with the exception of a flap over Argentine restrictions on Brazilian appliance imports. On steps constructing a SAFTA, MERCOSUR and the Andean Community reached an agreement to gradually reduce tariffs and other trade barriers. Bolivia and Peru are now both associate members of MERCOSUR. Preliminary talks have begun with Mexico on associating with MERCOSUR.

Negotiations to create a trade agreement with the EU – motivated in part by the desire to counter a U.S.-dominated FTAA – foundered in July, putting the October deadline for reaching final agreement in doubt. In the meantime, U.S.-Brazilian differences have stalled the FTAA negotiations.

Brazil**↓↑*****:*** Lula stays the course and economy moves toward strong recovery.

- After three years of little growth***, GDP is growing faster than expected.*** It may exceed 4.0% in 2004 as consumer spending and industrial output join export expansion as growth factors. However, there is concern that rapid growth may generate inflationary pressures and higher interest rates. Declining inflation allowed the Central Bank to lower the benchmark interest rate to 16% from 20%, over the last year, but the bank has taken a more cautious stance in the face of inflation exceeding the targeted rate. Financial markets are performing better – in part due to regulatory reforms – with the first successful IPOs in two years.

- ***External position is strong.*** Strong export performance has generated record trade and current account surpluses. Responding to these achievements and prudent debt management, Moody's upgraded Brazil's sovereign rating to the level of other rating services. Brazil has announced that it will not renew its IMF agreement. The real has been stable over the last 12 months, and FDI is beginning to pick up. In global trade politics, the government maintains its activist posture as leader of the Group of 20. In June, the WTO issued a ruling favoring Brazil's position in a dispute with the U.S. on cotton subsidies.

- Drug-related gangland violence in the *favelas* of Rio along with Brazil's low ranking on the 2004 UN Human Development Index point to ***serious social problems.*** The economic recovery is beginning to translate into falling unemployment.

- In spite of scandals tainting close advisors, which early in 2004 appeared as though they might weaken his government, ***Lula operates from a position of political strength.*** His rating in public opinion polls has fallen from the unsustainably high levels, but is still quite favorable. The President's PT party has struck a series of alliances and should do well in the October municipal elections, which will constitute the first referendum on his government.

- The government is working with Congress to ***continue enacting meaningful reforms.*** In 2003, these included the tax and social security reforms (Brazil's Supreme Court – STF – upheld the government's tax on civil servant pensions). Still awaiting action are bills dealing with bankruptcy, judicial and regulatory reform. The government prevailed in pushing through a moderate increase in the minimum wage.

Argentina =: Social unrest and unresolved debt restructuring threaten recovery.

- Fueled by improving terms of trade for its agricultural commodities, surging exports and growing consumer spending, the economy is experiencing ***rapid growth and low inflation***. Even with two years of high growth, the GDP is only back to where it was before the crisis, and there are doubts about the sustainability of the current rebound given Argentina's weak international position.

- In spite of healthy trade and current accounts surpluses, the ***external position is more precarious.*** The principal threat is the failure of the government to reach agreement with bond holders on restructuring the $100 billion defaulted debt. While sparring with its creditors, Argentina has also suspended negotiations with the IMF – with which it has had contentious relations in recent years – on finalizing terms of its current loan package. Until these issues are settled, FDI will remain at a standstill, which does not bode well for future growth.

- The social environment is a troubling mixture of ***violent crime, kidnapping and police corruption with unemployment and poverty***. Unemployment has dropped but remains high by Argentine standards. The same is true for poverty. Blue collar *piqueteros* tie up the streets of Buenos Aires to protest government economic policies while white collar demonstrations demand that authorities reign in crime and the street protests.

- President Kirchner, who won only a weak plurality of the popular vote, has pursued an ***increasingly populist political course*** to consolidate his position with the public and gain control of the Peronist party. This requires constant balancing of divergent domestic and international interests.

- The Kirchner administration needs to move on ***difficult policy issues left over from the 2002 crisis*** to build a foundation for long term economic and social recovery. Argentina is in the midst of its worst energy shortage in 15 years due in part to inadequate investment since 2002. The banking sector has not recovered from pessification, and the government and provincial governors have no firm fiscal plan.

Chile*🡅*: Accelerating growth enhances attractive environment.

- ***Growth is up and inflation down.*** Soaring copper export revenues, low interest rates and increasing consumer spending are moving the economy toward the performance achieved in the 1990s.

- Chile is again the international financial community's ***exemplary Latin American economy***. It maintains the coveted investment grade credit rating. The U.S.-Chile FTA is now in operation, and the country continues to pursue open regionalism, negotiating trade agreements throughout the world. Not even an appreciating peso has hurt the export boom. The only cloud on the external front is rising tensions with Bolivia over gaining sovereign access to the Pacific.

- Although Chile has succeeded in reducing poverty over the last decade, recent studies demonstrate that it continues to feature ***high income and wealth inequality***.

- The ruling *Concertación* government has ***regained some of the political and policy ground*** it lost last year, although the opposition was able to defeat a bill that would have instituted higher royalty taxes on mining companies. It is likely that the government will revise and resubmit the measure since it enjoys wide public support.

Paraguay =: Political developments cloud improving economy.

- Although at a modest rate, ***the economy is growing.*** Lower inflation constitutes another positive sign.

- Reaching agreement on a ***two- year IMF stand-by loan*** was a step forward in rebuilding confidence of the international community. Exports increased in 2003, as did FDI, and there was a small current account surplus.

- Following a promising start by President Duarte, the ***political environment has turned more problematic.*** Most unsettling has been the return of exiled politician Lino Oviedo to face charges that he attempted to overthrow the government and masterminded the 1999 murder of the vice president. A former general with a populist bent, Oviedo could emerge as a Chavez-like challenger to Duarte.

- The government needs to deliver on its campaign promises to ***combat corruption and implement the reforms*** thwarted under predecessors.

Uruguay↑: Economic recovery building as country prepares for election.

- Emerging from a four-year recession in 2003, ***economic growth is accelerating and inflation declining.*** The Argentine and, to a lesser extent, Brazilian recoveries are fueling the turnabout.

- Although the foreign debt burden is high, the ***external position is stronger.*** The country had a small current account surplus in 2003 (due to lower imports); the peso held its value and Standard & Poor's raised Uruguay's currency ratings because of the strengthening economy and improving fiscal picture. FDI should increase in 2004.

- If the candidate of the EP-FA alliance, Tabare Vasquez, wins – he is leading in the polls – the October presidential election, Uruguay will break duopoly of the traditional parties and inaugurate a ***left-leaning administration,*** joining Argentina, Brazil and Chile.

- As president, Vasquez would likely move ***slower in opening the economy***, and might even reverse some of his predecessor's reforms. In a December 2003 referendum, voters overwhelmingly repealed the law privatizing the energy sector.

IV. CONCLUSION

REGIONAL OUTLOOK

The environment for business in Latin American is stronger entering the last quarter of 2004 than it was a year earlier. In fact, almost across the region, conditions are the most attractive they have been since 2000 – environments in 12 of the 20 countries covered in this report improved over the past year while only two deteriorated with the remaining six environments unchanged – and the business environment is likely to become even more attractive over the next 15 months. However, the region still has not regained the economic momentum achieved during the 1990s, and the political consensus in favor of market-friendly policies of the NEM has frayed in recent years. The conclusion assesses the outlook for the Latin American business environment through 2005 and suggests what will shape the course of events.

External Environment

- ***Global =:*** The global environment continues to look positive for Latin America, although there are potential threats that bear monitoring. ***Keys: U.S-led global recovery; Chinese growth and exchange rate; end of Multi-Fiber Agreement; implementation of WTO agreement on subsidies and resumption of Doha round.***

- ***Regional?***: Developments in the U.S. – who wins in November and how Congress votes on pending trade agreements – will have a large impact on the regional environment. Hugo Chavez and Lula may also choose to more actively shape regional developments. Finally, experts are predicting a return of the El Nino weather phenomenon that periodically affects Latin America. ***Keys: Outcome of U.S. elections; resumption of FTAA talks.***

Domestic Environment

- ***Economic and Financial Performance =:*** Latin America will grow in 2005, probably at less than the surprisingly robust 4.5% forecast for 2004. Growth will likely be more uniform across the region as the Venezuela, Argentina and Uruguay slow down while Brazil, Mexico and the Dominican Republic accelerate. Local financial markets should be favorable. ***Keys: Oil prices.***

- ***Social Welfare↑:*** Unemployment will begin to decline throughout the region, as the current recovery gains strength, providing some short term improvement in social welfare. Civil society will continue mobilizing against crime and violence. ***Keys: Falling unemployment; upturn in per capita income.***

- ***Politics =:*** There are only two presidential elections scheduled for 2005, and the outcome of neither is likely to have region-wide significance. In the seven countries with elections in 2006, campaign politics will take center stage as the year progresses. More significant than elections are what happens in Bolivia and Ecuador where the incumbent presidents are vulnerable to the same combination of forces that brought down their predecessors, and whether President Chavez decides to actively export his Bolivarian revolution or not. ***Keys: Elections in Chile and Honduras; politics in the Andean crescent and Venezuela.***

- ***Policy/Regulatory Environment* =:** The recovery should reinforce the regional commitment to orthodox macroeconomic management based on floating exchange rates, strong fiscal anchors and inflation targeting. However, the fate of structural reform is less assured. Because of widespread popular opposition, privatization is off the policy agendas of most governments. Social security and labor market reform is feasible, although not easy to accomplish. ***Key: Progress on reform in Brazil.***

Paradigm Shift?

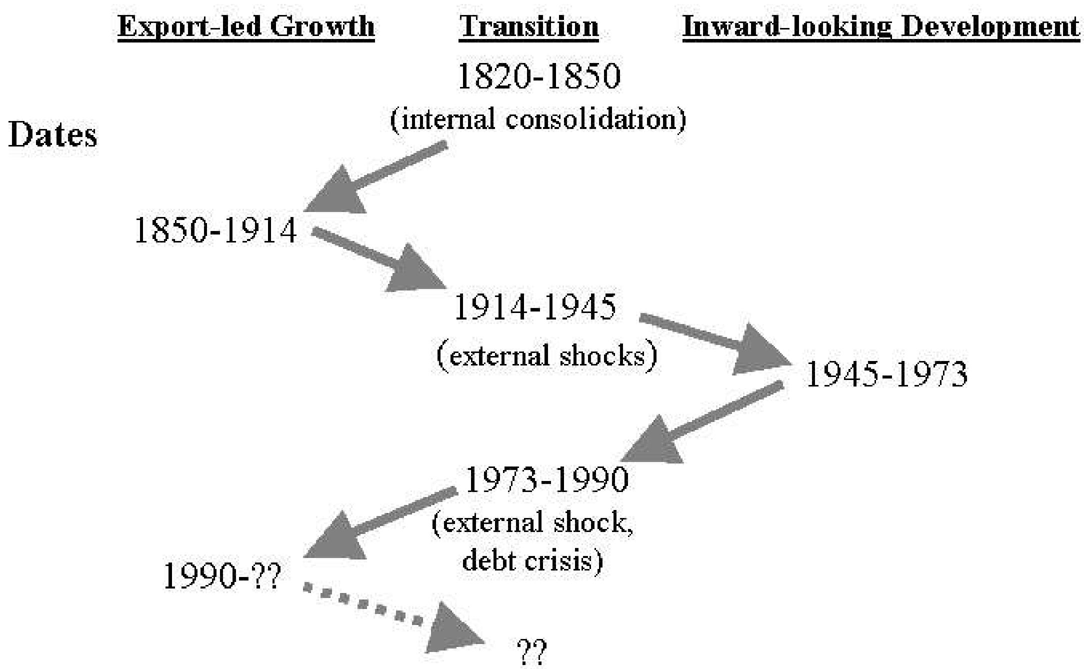
Latin America has a history of changing economic models (see figure below).[3] These paradigm shifts create significantly different business environments. Between 1914 and 1945, governments gradually abandoned policies promoting open markets and trade-driven growth in favor of import substitution industrialization, which resulted in the inward-looking-development/closed-markets approach that predominated for the next 35 years. Then in the mid-1980s in response to the Latin American debt crisis, there was a transition back to the export-led growth model promoted by international financial institutions and implemented through the policy reforms of the NEM.

Latin America's current economic recovery may blunt opposition to the NEM over the next 15 months, but it is unlikely to disappear. Studies, surveys and popular protests make it clear that a growing segment of the Latin American public is

[3] Adapted from Victor Bulmer-Thomas, *The Economic History of Latin America Since Independence* (New York: Cambridge University Press, 1994).

disillusioned with the failure of the NEM to perform as promised: reducing volatility and sustaining high rates of growth that translate into more jobs and less poverty. In this climate, governments not only encounter difficulty in passing specific reform initiatives – which means that either they do not propose them or quickly back down – but in some countries the NEM reform agenda threatens democratic governance itself.

Paradigm Shifts



What has helped save the NEM thus far is the absence of credible alternatives. President Chavez of Venezuela promotes his Bolivarian revolution as an alternative to "neoliberalism," but so far there have been no takers. In late 2003, Presidents Lula and Kirchner advanced the "Consensus of Buenos Aires" as a successor to the Washington consensus, but it too has gone nowhere. To the contrary, the policy agenda that Lula embraces in Brazil conforms closely to the NEM. There is then no evidence to suggest that Latin America is in the midst of again changing paradigms, although the NEM is being re-aligned to correspond to political realities in the region.

Country Outlooks

To further assess the outlook for the next 15 months, we divide the 20 countries into three categories – attractive, problematic and mixed – corresponding to the established character of their business environments. Significant developments can lead to national environments being reclassified. This year, four of the 20 countries are in different categories than in 2003: Guatemala and Colombia both improved from problematic to mixed; Bolivia fell from mixed to problematic while the Dominican Republic suffered an even bigger drop, from attractive to problematic.

Within each of the three categories, we indicate the likelihood that the national business environment will get better, get worse or stay the same through 2005 and suggest key events to monitor in each country. This year, 12 of the 20 environments are expected to improve compared to nine in 2003.

Attractive Environments

Although not without problems, the business environments in these four countries are fundamentally sounder and offer an attractive risk-reward profile. The combination of factors that make the environment attractive differs somewhat from country to country, as does the outlook of each for 2005. Mexico's fundamental strength comes from NAFTA and the steps taken to harmonize macroeconomic policies with those of the U.S. Politics cloud the short run outlook. Costa Rica has strong social and political institutions, but has been slower to open sectors of its economy. Trinidad & Tobago has a rich resource endowment and a strong tradition of parliamentary democracy. Chile is the Latin American country that has gone the farthest in opening its economy, been the most consistent in managing it and features strong political institutions.

- ***Mexico =:*** The U.S. recovery has begun to lift the Mexican economy, which promises to grow again in 2005. To remain its competitiveness Mexico needs to improve its infrastructure, strengthen education and open the energy sector, but the Fox administration is no longer capable of pushing through the needed reforms. Instead their prospects await the next government. In the meantime, the next two years will feature pre-election maneuvering among and within the three major parties. ***Keys: U.S. recovery; oil prices; ability of Fox to remain relevant.***

- ***Costa Rica =:*** Costa Rica has an educated population, strong democratic political institutions and rule of law tradition. Furthermore, it has successfully diversified into high tech export clusters. While political opposition to opening sectors of the economy to greater private participation remains strong, the Pacheco government did sign CAFTA. ***Keys: Ratification of CAFTA; oil prices; executive-legislative relations.***

- ***Trinidad & Tobago↑:*** There is no reason to believe that T&T will not continue to prosper – given its resource endowment and the current political alignment – if oil prices do not collapse. ***Keys: Global energy markets.***

- ***Chile↑:*** Chile is moving toward sustaining the high growth rates that made it Latin America's most attractive environment in the 1990's. ***Keys: Presidential election; copper prices.***

Problematic Environments

Uncertainty and unresolved issues make the business environments of the five countries in the problematic category fundamentally unattractive. In the Dominican Republic uncertainty surrounds the ability of the new government to move on several fronts simultaneously. Bolivia's new president faces a precarious political situation because of a deeply divided nation. Uncertainty in Venezuela, following the referendum, concerns both how the president and opposition will now address their deep differences and which policy agenda the government will pursue. The economic and political progress made in 2003 in Argentina is now threatened by unresolved social and financial crises. Similarly the promises of the new administration in Paraguay to clean up corruption and adopt stalled reforms are less likely to be fulfilled because of the country's dysfunctional politics. There are opportunities in all five – with the environments in four expected to improve – but their overall environments are so flawed that investing in them continues to require rigorous due diligence, hedging and a high tolerance for risk.

- ***Dominican Republic↑:*** Over the past two years, events have transformed the Dominican Republic from one of the most attractive environments in Latin America to one burdened with serious problems. Because the election produced a new administration with a clear mandate, macroeconomic indicators (inflation, exchange rate, interest rates, current account surplus) improved even before President-elect Fernández took office. A year from now the environment should be stronger, but President and his team have to sustain action on many fronts to return the country to its status as a leading Latin American market. ***Keys: Negotiations with the IMF; tax reform to close deficit; ability of Fernández to inspire international and domestic confidence.***

- ***Bolivia?:*** The next 12 months will be crucial for Bolivia. The Mesa government must reconstruct the country's energy policy, maintain macroeconomic stability, address deep social problems and survive in the face of a well organized and unpredictable opposition. ***Keys: New hydrocarbons legislation; Eva Morales; friends of Bolivia.***

- ***Venezuela↑:*** The recall referendum has shifted the political situation in President Chavez's favor. Now Venezuelans and investors will be watching to see what he does with his power, but the environment should continue to improve, largely because of the country's oil reserves and proximity to the U.S. market. ***Keys: Oil prices; relations with Washington; genuine political reconciliation.***

- ***Argentina↑:*** The Argentine recovery is at a turning point. If the government does not reach agreement with its bond holders and the IMF, the recovery will be difficult to sustain. Agreement with the IMF will require hard policy decisions. ***Keys: Debt restructuring negotiations; relations with the IMF; piquetero movement.***

- ***Paraguay =:*** The jury is still out on the Duarte government, which has promised to make significant changes, although his standing in the public opinion polls one year after assuming office is falling. Given Paraguay's weak institutions and deeply imbedded corruption, improvements in the environment are difficult to accomplish. ***Keys: Compliance with IMF agreement; Oviedo challenge.***

Mixed Environments

The business environments in the remaining 11 countries have a mixture of attractive and problematic characteristics. It is worth noting, however, that the short-term outlook for these countries is positive. In only one (Ecuador) is the environment expected to deteriorated, while three will stay the same and seven will become more attractive. Of particular note among the environments expected to strengthen is Brazil. A sustained economic recovery will spill over into the rest of the region – directly through increased trade and indirectly through the lessons to be learned from the Lula government's policy choices.

- ***El Salvador*🡅*:*** The new administration will have a honeymoon, but it must deliver results in the form of higher rates of growth and investment from the deep structural reforms enacted by ARENA governments. It must also show progress in reducing gang crime. Finally, failure of CAFTA would be a serious setback. ***Keys: Ratification of CAFTA; accelerated growth; gang violence.***

- ***Guatemala*🡅*:*** Expectations of both Guatemalan civil society and the international community are high for the new government, but the challenges facing it are daunting. Any progress it makes in fulfilling its campaign commitments and popular expectations during the first year will not go unnoticed. ***Keys: Steps toward reducing crime, violence and corruption; effectiveness of governability pact.***

- ***Honduras =:*** Because of its investment in *maquiladora* industries and heavy remittance flow, Honduras has stabilized its environment, but it has not been able to sustain dynamic growth. It should increasingly benefit from the U.S. recovery, but election politics are likely to intrude on policy-making. ***Keys: CAFTA ratification; presidential election.***

- ***Nicaragua =:*** With an IMF agreement and debt relief, Nicaragua has a more attractive business environment. Now it needs to generate the growth needed to reduce poverty. ***Key: Increased growth and sustained FDI.***

- ***Panama*🡅*:*** The question surrounding the Torrijos administration is: Will it use its widespread popular support and legislative majority to effect serious change in Panama? This would mean breaking with the old guard of his party in favor of the younger activists who also helped win the presidency. It would also entail serious attention to Panama's endemic corruption. ***Keys: Torrijos first months in office; U.S. ratification of FTA.***

- ***Jamaica*🡅*:*** In recent years, Jamaica has taken steps (most importantly reforming and rebuilding the financial sector) that could pay off with improved economic performance, if hurricane recovery does not prove too costly. ***Keys: Favorable IMF review; renewed bank lending; increased FDI and tourist arrivals.***

- ***Colombia*🡅*:*** Thanks largely to the effectiveness of President Uribe, the business environment is less problematic, which prompts an upgrade. The question now is whether he can sustain his security efforts, deal with fiscal deficit and pursue re-election (which requires a constitutional change) in the remaining two years of his term. Any significant military setback would undermine the environment. ***Keys: Re-election politics; continued progress against guerrillas.***

- ***Ecuador*🡻*:*** President Gutierrez may make it through his term – now at the mid-point – but to do so he seems willing to sacrifice cabinet members and important policy initiatives. ***Keys: Oil price; new IMF agreement, debt management.***

- ***Peru =:*** It now appears that President Toledo will make it through his term despite his weak political standing and ineffectual leadership. His removal or resignation would generate uncertainty and weaken the business environment. Then there is apprehension of the 2006 election, for which current front runners are disgraced former presidents Alan Garcia and Alberto Fujimori. The good news is that Peru's dysfunctional politics seem to be increasingly extraneous to economic performance. ***Keys: Fate of Toledo government in run-up to 2006 presidential election.***

- ***Brazil*🡹*:*** The business environment continues to grow more attractive. The Lula government moved beyond the honeymoon period to demonstrate staying power, political agility and genuine competence in governing the country. And now its macroeconomic and financial policies are paying off with a recovery that is gaining strength. ***Keys: October municipal elections; sustained growth.***

- ***Uruguay*🡹*:*** In spite of the likely victory of the leftist candidate in the presidential election, the environment should continue to strengthen. To enhance Uruguay's standing as a financial center, as he promises, Tabare Vasquez cannot abandon the principal tenets of established policy. ***Keys: Presidential election; policies of new administration***

TABLES

Table 1

MAJOR SUBREGIONAL TRADE AGREEMENTS

	NAFTA	CACM	ANDEAN COMMUNITY	MERCOSUR	CARICOM
I. Type of Agreement	Free Trade Area	Customs Union	Customs Union	Customs Union	Customs Union
II. Entry into Force	1994	1961	1969	1995	1973
III. Agreement Objectives	1. Eliminate tariff barriers on most goods 2. Liberalize market access in several sectors 3. Facilitate movement of business and people	1.Create economic union 2. Implement a CET: common external tariff 3. Reduce intraregional tariffs	1. Create customs union 2. Implement a CET: common external tariff 3. Eliminate intraregional trade barriers 4. Become a common market by 2005	1. Liberalize trade 2. Implement a CET: common external tariff 3. Adopt a sectoral approach	1. Stimulate/promote economic integration 2. Implement a CET: common external tariff
IV.Member Countries	United States Mexico Canada	Costa Rica El Salvador Guatemala Honduras Nicaragua	Bolivia Colombia Ecuador Peru Venezuela	Argentina Brazil Paraguay Uruguay (Bolivia)* (Chile)*	Haiti Jamaica Trinidad & Tobago 12 Other Members FTA w/ Dom. Rep.
V. Total Population (2002)	427.1 million	34.6 million	116.9 million	223.4 million	14.7 million
VI. Total GDP (2002)	$11.7 trillion	$65.0 billion	$263.8 billion	$572.0 billion	$33.5 billion
VII. Regional Trade (2002)[1]					
Exports within own region	$566.7 billion (57.3%)	$2.9 billion (23.2%)	$5.9 billion (12.2%)	$9.5 billion (11.3%)	NA
Exports to Latin America	$128.6 billion (13.0%)	$3.7 billion (29.6%)	$11.3 billion (23.4%)	$21.7 billion (25.7%)	NA
Exports to World	$988.6 billion (100%)	$12.5 billion (100%)	$48.3 billion (100%)	$84.3 billion (100%)	NA
VIII. 2002 Subregional Trade Leading Exporters[2]	United States (41.3%) Canada (35.4%)	Guatemala (34.2%)* El Salvador (25.1%)*	Colombia (42.8%) Venezuela (22.6%)	Argentina (55.9%) Brazil (32.4%)	N/A N/A

*:associate member

Source: UNDP, *Human Development Report 2004.*

(1) IADB. *Integration and Trade in the Americas: A Preliminary Estimate of 2002 Trade;*

(2) World Trade Organization. *International Trade Statistics 2003* (www.wto.org).

* Data for Guatemala and El Salvador are 2002 estimates from SIECA (Secretaria de Integracion Economica Centroamericana <www.sieca.org.gt>).

Table 2

TERMS OF TRADE, 1994-2003

(1995=100, except where indicated)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAFTA REGION										
Mexico	103.3	100.0	102.8	104.0	100.4	102.3	107.4	107.3	107.9	108.9
CENTRAL AMERICA										
Costa Rica	93.9	100.0	94.9	100.6	103.9	102.8	95.8	94.5	93.0	90.1
El Salvador	81.0	100.0	93.6	94.1	91.8	86.9	82.7	80.2	79.5	78.5
Guatemala	89.9	100.0	87.7	94.8	94.3	87.2	84.7	82.9	82.1	80.6
Honduras	92.1	100.0	92.8	115.4	118.0	110.2	103.8	101.6	98.5	95.7
Nicaragua	95.5	100.0	88.1	83.9	87.4	81.1	77.3	70.9	69.8	67.4
Panama	110.1	100.0	101.3	103.4	103.3	105.9	99.8	100.3	99.3	97.3
CARIBBEAN										
Dominican Republic	95.6	100.0	97.7	102.0	103.1	104.0	102.0	103.6	103.0	102.5
Jamaica*	78.4	83.4	89.4	…	…	…	…	…	…	…
Trinidad & Tobago*	88.2	98.9	88.3	90.0	…	…	…	…	…	…
ANDEAN SOUTH AMERICA										
Bolivia	102.5	100.0	111.7	115.6	109.9	109.8	112.0	110.5	110.0	115.4
Colombia	104.9	100.0	103.7	104.4	95.8	102.6	115.8	109.2	107.2	109.3
Ecuador	108.9	100.0	109.6	111.9	99.6	106.2	123.8	114.2	117.2	121.1
Peru	95.7	100.0	96.5	103.2	89.7	83.3	80.9	77.5	79.8	81.6
Venezuela	100.0	100.0	115.6	110.8	79.9	107.0	157.4	131.8	140.4	153.7
BRAZIL AND SOUTHERN CONE										
Argentina	105.6	100.0	108.5	108.9	103.9	98.5	108.8	108.2	107.1	116.3
Brazil	91.5	100.0	98.0	103.8	103.8	93.6	90.9	90.7	87.9	88.4
Chile	84.1	100.0	80.7	83.0	73.3	73.5	73.6	68.5	68.5	70.2
Paraguay	105.1	100.0	100.0	99.9	92.4	87.7	84.2	84.2	84.1	83.3
Uruguay	94.7	100.0	96.7	96.4	103.1	94.9	86.2	87.1	86.7	87.7
LATIN AMERICA AND CARIBBEAN	98.9	100	100.8	102.8	97.2	97.5	103.4	100.4	99.4	100.7

SOURCE: CEPAL, *Anuario Estadistico de America Latina y el Caribe, 2003.*
* Source:Inter-American Development Bank, *Facing Up to Inequality in Latin America,* 1998 (Index 1980=100)
Year 2003 are preliminary CEPAL estimates

Table 3

NET FOREIGN DIRECT INVESTMENT, 1994-2003

(Millions of US dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAFTA REGION										
Mexico	10,973	9,526	9,185	12,830	11,602	12,476	16,405	26,537	14,435	11,000
CENTRAL AMERICA										
Costa Rica	292	331	421	404	608	614	400	445	628	466
El Salvador	0	38	-7	59	1,103	162	178	260	234	139
Guatemala	65	75	77	84	673	155	230	456	110	104
Honduras	42	50	91	128	99	237	282	195	143	216
Nicaragua	40	75	97	173	184	300	267	150	204	241
Panama	411	223	416	1,299	1,203	864	700	405	78	576
CARIBBEAN										
Dominican Republic	207	414	97	421	700	1,338	953	1,079	961	700
Jamaica	***	***	***	***	***	***	***	***	***	***
Trinidad and Tobago	***	***	***	***	***	***	***	***	***	***
ANDEAN SOUTH AMERICA										
Bolivia	147	393	474	731	952	983	723	660	654	357
Colombia	1,298	712	2,784	4,753	2,033	1,336	1,973	2,493	1,171	991
Ecuador	576	452	500	724	870	648	720	1,330	1,275	1,637
Peru	3,108	2,550	3,487	2,056	1,580	1,811	662	1,070	2,391	958
Venezuela	455	894	1,676	5,036	3,942	2,018	4,180	3,479	-241	2,100
BRAZIL AND SOUTHERN CONE										
Argentina	2,622	4,112	5,349	5,508	4,966	22,630	10,654	3,304	1,741	1,103
Brazil	2,035	3,475	11,667	18,608	26,002	26,888	30,497	24,715	14,084	7,137
Chile	1,672	2,205	3,681	3,809	3,144	6,203	-348	3,045	1,139	1,164
Paraguay	138	98	144	230	336	89	98	77	-26	14
Uruguay	155	157	137	113	155	235	274	319	181	131
LATIN AMERICA AND CARIBBEAN	24,231	25,789	40,279	56,969	60,163	79,018	68,862	70,022	39,169	29,041

SOURCE: CEPAL, *Anuario Estadistico de América Latina y el Caribe, 2003*
Preliminary estimates for Year 2003 from CEPAL.

Table 4

GDP GROWTH RATES, 1994-2004

(% Change)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average 1994-2003	2004
NAFTA REGION												
Mexico	4.4	-6.2	5.4	6.8	5.0	3.7	6.7	-0.3	0.8	1.3	2.8	3.9
CENTRAL AMERICA												
Costa Rica	4.9	4.0	0.8	5.4	8.3	8.0	1.8	1.2	2.8	5.6	4.3	3.7
El Salvador	6.1	6.4	1.8	4.2	3.8	3.4	2.0	1.7	2.1	2.0	3.3	2.0
Guatemala	4.0	4.9	3.0	4.4	5.1	3.9	3.4	2.6	2.2	2.1	3.9	3.0
Honduras	-1.3	4.1	3.7	4.9	3.3	-1.5	5.6	2.7	2.6	3.2	2.7	3.5
Nicaragua	3.3	4.3	5.1	5.4	4.1	7.4	4.4	3.1	0.7	2.3	4.0	3.5
Panama	2.9	1.8	2.7	4.7	4.6	3.5	4.2	3.0	0.6	4.1	3.2	4.0
CARIBBEAN												
Dominican Republic	4.0	5.0	7.2	8.2	7.4	7.8	7.3	3.0	4.3	-0.4	5.4	-1.0
Jamaica	1.0	0.7	-0.1	-1.8	-0.8	0.6	1.0	1.8	0.9	1.0	0.4	1.5
Trinidad & Tobago	3.6	4.0	4.4	4.0	5.3	7.8	9.2	4.3	3.0	5.5	5.1	4.7
ANDEAN SOUTH AMERICA												
Bolivia	4.7	4.7	4.5	4.9	5.0	0.3	2.3	1.6	2.7	2.5	3.3	3.3
Colombia	6.1	5.2	1.9	3.3	0.8	-3.8	2.4	1.4	1.6	3.7	2.3	3.7
Ecuador	4.3	2.3	2.3	3.9	1.0	-7.9	0.9	5.5	3.8	2.7	1.9	5.5
Peru	12.8	8.6	2.5	6.8	-0.5	0.9	2.7	0.2	4.9	4.0	4.3	4.2
Venezuela	-2.3	4.0	-0.4	7.4	0.7	-5.8	3.8	3.5	-9.0	-9.4	-0.7	12.0
BRAZIL AND SOUTHERN CONE												
Argentina	5.8	-2.8	5.5	8.0	3.8	-3.4	-0.8	-4.4	-10.8	8.7	1.0	7.1
Brazil	5.9	4.2	2.5	3.1	0.1	1.0	3.9	1.3	1.5	-0.2	2.3	3.7
Chile	5.7	10.6	6.9	6.8	3.3	-0.7	4.5	3.5	2.0	3.3	4.6	4.8
Paraguay	3.1	4.7	1.1	2.4	-0.6	-0.1	-0.6	2.4	-2.5	2.6	1.2	2.5
Uruguay	7.3	-1.4	5.0	5.4	4.4	-3.4	-1.9	-3.6	-12.0	2.5	0.2	9.5
LATIN AMERICA AND CARIBBEAN	5.2	1.1	3.7	5.1	2.2	0.5	3.7	0.4	-0.6	1.7	2.3	4.5

SOURCE: CEPAL, *Proyecciones latinoamericanas 2002, 2003, and 2004.*
Preliminary estimates for 2004 from CEPAL (August 2004)

Table 5

ANNUAL INFLATION RATES, 1994-2004

(% change in CPI)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION											
Mexico	7.1	52.0	27.7	15.7	18.6	12.3	9.0	4.4	5.7	4.0	4.0-5.0
CENTRAL AMERICA											
Costa Rica	19.9	22.6	13.9	11.2	12.4	10.1	10.2	11.0	9.7	9.9	9.0-10.0
El Salvador	8.9	11.4	7.4	1.9	4.2	-1.0	4.3	1.4	2.8	2.5	4.5-6.0
Guatemala	11.6	8.6	10.9	7.1	7.5	4.9	5.1	8.9	6.3	5.9	6.0-7.0
Honduras	28.9	26.8	25.3	12.8	15.7	10.9	10.1	8.8	8.1	6.8	7.0-8.0
Nicaragua	12.4	11.1	12.1	7.2	18.5	7.2	9.9	4.7	4.0	6.6	7.5-8.5
Panama	1.4	0.8	2.3	-0.5	1.4	1.5	0.7	0.0	1.9	1.5	1.0-2.0
CARIBBEAN											
Dominican Republic	14.3	9.2	4.0	8.4	7.8	5.1	9.0	4.4	10.5	42.7	40-50
Jamaica	33.2	21.7	21.5	9.1	8.1	6.3	7.7	8.7	7.3	12.0	
Trinidad & Tobago	3.7	5.3	3.3	3.6	5.6	3.4	5.6	3.2	4.3	3.8	
ANDEAN SOUTH AMERICA											
Bolivia	8.5	12.6	7.9	6.7	4.4	3.1	3.4	0.9	2.5	3.9	3.0-4.0
Colombia	22.6	19.5	21.6	17.7	16.7	9.2	8.8	7.6	7.0	6.5	7.5-8.5
Ecuador	25.3	22.8	25.5	30.7	43.4	60.7	91.0	22.4	9.4	6.1	5.0-6.0
Peru	15.4	10.2	11.8	6.5	6.0	3.7	3.7	-0.1	1.5	2.5	2.5-3.5
Venezuela	70.8	56.6	103.2	37.6	29.9	20.0	13.4	12.3	31.2	27.1	25-30
BRAZIL AND SOUTHERN CONE											
Argentina	3.9	1.6	0.1	0.3	0.7	-1.8	-0.7	-1.5	41.0	3.7	5.0-7.0
Brazil	916.5	22.4	9.6	5.2	1.7	8.9	6.0	7.7	12.5	9.3	6.0-7.0
Chile	8.9	8.2	6.6	6.0	4.7	2.3	4.5	2.6	2.8	1.1	1.5-2.5
Paraguay	18.3	10.5	8.2	6.2	14.6	5.4	8.6	8.4	14.6	9.3	4.0-5.0
Uruguay	44.1	35.4	24.3	15.2	8.6	4.2	5.1	3.6	25.9	10.2	9.5-10.5
LATIN AMERICA AND CARIBBEAN	340.9	25.9	18.6	10.3	9.8	9.5	8.6	5.9	12.2	8.5	7.5

SOURCE: CEPAL, *Proyecciones de America Latina y el Caribe, 2004.*

Preliminary estimates for Year 2003 and 2004 from CEPAL.

Table 6

EXPORTS, IMPORTS (GOODS & SERVICES) AND CURRENT ACCOUNT BALANCE, 2000-2003

(Millions of US dollars)

	2000			2001			2002			2003		
	Exports	Imports	C/ Account	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account
NAFTA REGION												
Mexico	180,167	190,494	-18,160	171,103	190,494	-18,103	173,454	184,614	-14,046	177,937	185,419	-8,400
CENTRAL AMERICA												
Costa Rica	7,748	7,295	-707	6,820	7,295	-737	7,123	6,911	-946	8,040	7,707	-990
El Salvador	3,662	5,636	-431	3,587	5,636	-190	3,799	5,795	-384	4,057	5,898	-617
Guatemala	3,860	5,568	-1,049	3,905	5,568	-1,253	3,769	6,070	-1,193	3,963	6,622	-1,109
Honduras	2,464	3,318	-258	2,436	3,336	-293	2,458	3,511	-243	2,601	3,492	-454
Nicaragua	956	1,991	-917	947	1,996	-932	916	1,973	-883	936	1,974	-804
Panama	7,820	8,099	-716	7,997	8,122	-174	7,567	7,794	-92	7,275	7,625	-130
CARIBBEAN												
Dominican Republic	8,964	10,852	-1,026	8,387	10,852	-741	8,238	10,063	-875	9,060	10,166	850
Jamaica	**	**	**	**	**	**	**	**	**	**	**	**
Trinidad & Tobago	**	**	**	**	**	**	**	**	**	**	**	**
ANDEAN SOUTH AMERICA												
Bolivia	1,470	2,078	-447	1,521	2,079	-274	1,545	1,980	-335	1,793	2,048	-47
Colombia	15,668	14,399	424	14,952	14,410	-1,251	14,160	15,873	-1,639	15,052	15,392	-1,677
Ecuador	5,987	5,012	916	5,693	4,927	-550	6,173	6,613	-1,178	7,012	7,742	-508
Peru	8,614	9,723	-1,568	8,517	9,723	-1,184	9,192	9,618	-1,206	10,238	9,932	-1,245
Venezuela	34,394	19,868	13,112	27,648	21,300	2,062	27,716	23,346	7,423	26,533	17,474	9,844
BRAZIL AND SOUTHERN CONE												
Argentina	31,092	32,822	-8,864	30,846	32,822	-4,429	28,643	27,360	9,590	32,770	13,010	8,994
Brazil	64,469	72,774	-24,669	67,545	72,443	-23,213	69,968	72,653	-7,695	82,654	61,863	2,713
Chile	22,971	21,702	-1,073	22,571	21,817	-1,192	22,300	21,435	-553	25,186	20,744	-487
Paraguay	2,926	3,335	-192	2,431	3,286	-275	2,425	2,888	92	2,663	2,507	59
Uruguay	3,659	4,193	-567	3,276	4,193	-545	2,698	3,723	251	2,937	2,526	32
LATIN AMERICAN AND CARIBBEAN	407,395	420,493	-46,262	390,624	421,647	-53,368	392,563	413,523	-13,962	421,159	383,373	5,969

SOURCE: CEPAL, *Anuario Estadistico de America Latina y el Caribe, 2003*
CEPAL, *Balance Preliminar de las Economias de America Latina y el Caribe, 2002*

Preliminary estimates for Year 2003 from CEPAL.

Table 7

GROSS DISBURSED EXTERNAL DEBT, 1994-2003

(Millions of US dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAFTA REGION										
Mexico	139,800	157,200	149,028	160,258	166,381	148,652	144,534	138,736	137,363	138,082
CENTRAL AMERICA										
Costa Rica	4,133	2,859	2,830	2,988	3,171	3,266	3,334	3,338	3,654	4,492
El Salvador	2,056	2,517	2,689	2,632	2,789	2,831	3,148	3,987	4,550	4,550
Guatemala	2,895	3,026	3,197	3,618	3,831	3,929	4,100	4,290	4,665	4,665
Honduras	4,040	4,121	4,073	4,404	4,729	4,706	4,808	4,964	4,973	4,973
Nicaragua	11,695	6,094	6,001	6,287	6,549	6,660	6,374	6,363	6,449	6,449
Panama	5,505	5,070	5,051	5,180	5,412	5,604	6,263	6,349	6,492	6,400
CARIBBEAN										
Dominican Republic	3,946	3,807	3,572	3,537	3,636	3,682	4,177	4,459	5,047	5,047
Jamaica	3,652	3,232	3,278	3,306	3,024	3,375	4,146	4,348	4,400	4,400
Trinidad & Tobago	2,064	1,876	1,565	1,471	1,585	1,680	1,638	1,614	1,650	1,650
ANDEAN SOUTH AMERICA										
Bolivia	3,777	4,366	4,234	4,655	4,574	4,461	4,412	4,300	4,727	4,507
Colombia	21,855	31,116	34,409	36,681	36,733	36,131	39,039	37,340	37,261	37,261
Ecuador	14,589	14,586	15,099	16,400	16,282	13,564	14,411	16,288	16,457	16,457
Peru	30,191	33,805	28,642	29,477	28,704	28,150	27,195	27,840	28,714	28,484
Venezuela	40,998	34,117	33,710	31,457	33,723	32,786	32,437	32,290	32,000	33,000
BRAZIL AND SOUTHERN CONE										
Argentina	85,656	110,613	125,052	141,929	145,289	146,575	140,273	134,200	140,400	140,400
Brazil	148,295	186,561	208,375	259,496	241,468	236,156	226,067	227,689	235,000	235,000
Chile	21,768	26,272	29,034	32,591	34,758	37,177	38,538	40,956	42,436	42,436
Paraguay	1,271	1,801	1,927	2,133	2,697	2,819	2,652	2,700	2,791	2,690
Uruguay	4,251	5,387	5,459	6,036	5,618	6,116	5,855	8,328	8,626	8,593
LATIN AMERICA AND CARIBBEAN	**564,399**	**651,342**	**679,910**	**768,349**	**764,389**	**741,702**	**726,732**	**723,689**	**741,193**	**743,073**

SOURCE: CEPAL, *Anuario Estadistico de America Latina y el Caribe, 2003*
CEPAL, *Balance Preliminar de las Economías de América Latina y el Caribe, 2002*
Year 2003 are preliminary CEPAL estimates

Table 8

DEBT/EXPORT RATIO, 1994-2003

(as a percentage of exports of goods and services)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAFTA REGION										
Mexico	196.3	176.0	139.8	131.9	129.0	100.4	80.2	81.1	79.2	77.6
CENTRAL AMERICA										
Costa Rica	124.6	64.2	58.6	55.9	46.1	39.7	43.0	48.9	51.3	55.9
El Salvador	125.4	123.4	122.1	90.4	91.5	89.2	86.0	111.2	119.8	112.2
Guatemala	128.8	107.2	114.3	113.4	109.9	112.9	106.2	109.9	123.8	117.7
Honduras	300.6	252.1	212.0	201.7	193.1	210.2	192.6	203.8	202.4	191.2
Nicaragua	2522.1	995.6	931.4	788.5	788.6	794.3	668.4	672.2	704.3	688.8
Panama	73.9	66.6	68.1	61.7	65.8	78.5	80.0	79.4	85.8	88.0
CARIBBEAN										
Dominican Republic	75.3	66.4	57.7	50.1	48.6	46.1	46.6	53.2	61.3	55.7
Jamaica	120.6	101.7	97.3	96.4	97.7	87.0	94.1	123.6	138.7	***
Trinidad & Tobago	98.1	68.1	66.6	52.3	50.2	50.4	37.7	36.3	39.4	***
ANDEAN SOUTH AMERICA										
Bolivia	356.9	353.9	322.5	329.2	337.5	340.4	300.1	282.8	305.9	251.4
Colombia	205.6	253.1	261.5	258.0	273.5	258.5	249.2	249.7	263.1	247.6
Ecuador	317.1	280.7	268.5	270.7	325.8	258.6	244.0	286.1	266.6	234.7
Peru	533.4	503.2	391.8	351.5	381.2	365.3	315.7	326.9	312.4	278.2
Venezuela	231.9	164.4	133.3	124.9	176.3	146.9	93.4	116.8	115.5	124.4
BRAZIL AND SOUTHERN CONE										
Argentina	442.3	444.3	441.9	460.3	468.0	528.2	451.1	435.1	490.2	428.4
Brazil	313.3	354.4	396.9	438.5	409.0	427.8	350.0	337.1	335.9	284.3
Chile	150.7	135.7	143.8	149.8	171.4	176.8	165.5	181.5	190.3	168.5
Paraguay	33.6	37.5	43.8	53.6	64.6	97.6	90.7	111.1	115.1	101.0
Uruguay	152.7	153.6	141.9	143.1	135.4	172.2	160.0	254.2	319.8	292.6
LATIN AMERICA AND CARIBBEAN	**248.9**	**238.6**	**225.1**	**229.6**	**228.6**	**211.4**	**173.7**	**180.6**	**184.1**	**172.1**

SOURCE: CEPAL, *Anuario Estadistico de America Latina y el Caribe 2002 and 2003*
Year 2003 are preliminary CEPAL estimates
* Gross disbursed external debt includes the public-and-private sector external debt. Also includes International Monetary Funds loans.

Table 9

EXCHANGE RATES AND IMF AGREEMENTS, 2004

	Currency	EXCHANGE RATE January 2, 2004	EXCHANGE RATE August 27, 2004	% change	Current Exchange Rate Regime	IMF Agreements (Dates)
NAFTA REGION						
Mexico	peso	11.17	11.34	-1.52%	Independent Float	n/a
CENTRAL AMERICA						
Costa Rica	colón	418.74	443.83	-5.99%	Managed Float	n/a
El Salvador	colón/U.S. dollar	8.75	8.75	0.00%	Dollarized	n/a
Guatemala	quetzal	8.03	7.90	1.62%	Dollarizing	
Honduras	lempira	17.97	18.47	-2.78%	Managed Float	PRGF[1] (2/04-2/07)*
Nicaragua	córdoba oro	15.75	16.15	-2.54%	Managed Float	PRGF[1] (12/02-12/05)
Panama	balboa/U.S. dollar	1.00	1.00	0.00%	Dollarized	n/a
CARIBBEAN						
Dominican Republic	peso	35.00	39.66	-13.31%	Managed Float	Stand-by (8/03-8/05)
Jamaica	Jamaican dollar	60.61	61.80	-1.96%	Independent Float	n/a
Trinidad & Tobago	Trin. dollar	6.27	6.27	0.00%	Independent Float	n/a
ANDEAN SOUTH AMERICA						
Bolivia	boliviano	7.86	7.97	-1.40%	Managed Float	Stand-by (4/03-12/04)
Colombia	peso	2779.08	2568.67	7.57%	Independent Float	Stand-by (1/03-1/05)
Ecuador	sucre/U.S. dollar	1.00	1.00	0.00%	Dollarized	n/a
Peru	nuevo sol	3.48	3.36	3.45%	Independent Float	Stand-by (6/04-8/06)
Venezuela	bolivar	1600	1918	-19.85%	Managed and Licensed	n/a
BRAZIL AND SOUTHERN CONE						
Argentina	peso	2.95	3.02	-2.37%	Independent Float	Stand-by (9/03-9/06)
Brazil	real	3.03	2.97	1.98%	Independent Float	Stand-by (9/02-3/05)
Chile	peso	713	700	1.82%	Independent Float	n/a
Paraguay	guarani	6100	5883	3.56%	Independent Float	Stand-by (12/03-3/05)
Uruguay	peso	29.80	28.68	3.76%	Managed Float	Stand-by (4/02-3/05)

SOURCES: Latin American Weekly Report, 31 August 2004; IMF Homepage <www.imf.org>; Central Banks for Jamaica and Trinidad & Tobago

Key for IMF Agreements

1: PRGF = Poverty Reduction and Growth Facility

2: HIPC = Debt-service relief initiative for Heavily Indebted Poor Countries (IMF and World Bank's joint program)

*Honduras is also receiving HIPC assistance (6/00 Floating).

Table 10

SOCIAL ENVIRONMENT 2004

	POPULATION (Millions) 2002	AVG. POP. GROWTH % 2002-15	ILLITERATE POP. % 2002	GDP PER CAPITA (PPP $U.S.)* 2002	GDP PER CAPITA GROWTH % 1990-2002	INCOME INEQUALITY GINI index**	HDI (World rank)*** 2002	POPULATION IN POVERTY (Year) %	UNEMPLOYMENT RATE % 2003
NAFTA REGION									
Mexico	102.0	1.2	9.5	$8,970	1.4	54.6	53	(2002) 39.4%	3.2
CENTRAL AMERICA									
Costa Rica	4.1	1.6	4.2	$8,840	2.7	46.5	45	(2002) 20.3%	6.7
El Salvador	6.4	1.3	20.3	$4,890	2.3	53.2	103	(2001) 48.9%	6.2
Guatemala	12.0	2.3	30.1	$4,080	1.3	48.3	121	(2002) 59.9%	3.4
Honduras	6.8	2.0	20.0	$2,600	0.3	55.0	115	(2002) 77.3%	7.7
Nicaragua	5.3	2.1	23.3	$2,470	1.5	55.1	118	(2001) 69.4%	(2002) 12.9
Panama	3.1	1.6	7.7	$6,170	2.5	56.4	61	(2002) 25.3%	15.6
CARIBBEAN									
Dominican Republic	8.6	1.2	15.6	$6,640	4.2	47.4	98	(2002) 44.9%	16.4
Jamaica	2.6	1.0	12.4	$3,980	-0.1	37.9	79	(1998) 15.9%	14.7
Trinidad and Tobago	1.3	0.3	1.5	$9,430	2.9	40.3	54	(1997) 22.0%	10.6
ANDEAN SOUTH AMERICA									
Bolivia	8.6	1.7	13.3	$2,460	1.1	44.7	114	(2002) 62.4%	(2002) 8.7
Colombia	43.5	1.4	7.9	$6,370	0.4	57.6	73	(2002) 50.6%	16.9
Ecuador	12.8	1.3	9.0	$3,580	***	43.7	100	(2002) 49.0%	9.8
Peru	26.8	1.4	15.0	$5,010	2.2	49.8	85	(2001) 54.8%	9.3
Venezuela	25.2	1.6	6.9	$5,380	-1.0	49.1	68	(2002) 48.6%	18.2
BRAZIL AND SOUTHERN CONE									
Argentina	38.0	1.0	3.0	$10,880	1.7	52.2	34	(2002) 41.5%	15.6
Brazil	176.3	1.0	13.6	$7,770	1.3	59.1	72	(2001) 37.5%	12.4
Chile	15.6	1.1	4.3	$9,820	4.4	57.1	43	(2000) 20.6%	8.5
Paraguay	5.7	2.2	8.4	$4,610	-0.5	56.8	89	(2001) 61.0%	(2002) 14.7
Uruguay	3.4	0.6	2.3	$7,830	1.4	44.6	46	(2002) 15.4%	16.8

SOURCES: UNDP, *Human Development Report 2004*; Population in poverty and unemployment rates are from CEPAL, 2003.

* GDP per capita (Purchasing Power Parity in $U.S.). 1 PPP dollar has the same purchasing power in the domestic economy as 1 U.S. dollar has in the U.S. economy

** The Gini index measures inequality over the entire distribution of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality

*** The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity (life expectancy at birth), knowledge (combination of literacy rate and enrollment ratio), and a decent standard of living (GDP per capita - PPP in $U.S.).

Table 11

POLITICAL ENVIRONMENT, 2004

	Level of Democratic Consolidation [1]					Current Political Environment		
	Election Inaugurating Civilian Rule	Political Rights [2]	Civil Liberties [3]	Corruption Perception [4] Index	Corruption Perception [4] Rank	Current President / PM	Term	Control of Legislature
NAFTA REGION								
Mexico	1920	2	2 ▲	3.6	64	Fox	2000-2006	Opposition
CENTRAL AMERICA								
Costa Rica	1949	1	2	4.3 ▼	50	Pacheco	2002-2006	Opposition
El Salvador	1984	2	3	3.7 ▲	59	Saca	2004-2009	Govt. Coalition
Guatemala	1985*	4 ▼	4	2.4 ▼	100	Berger	2004-2008	Govt. Coalition
Honduras	1982	3	3	2.3 ▼	106	Maduro	2001-2005	Opposition
Nicaragua	1984	3	3	2.6 ▲	88	Bolanos	2001-2006	Nominal
Panama	1994	1	2	3.4 ▲	66	Torrijos	2004-2009	Government
CARIBBEAN								
Dominican Republic	1963	2	2	3.3 ▼	70	Fernandez	2004-2008	Opposition
Jamaica	1962	2	3	3.8 ▼	57	Patterson	2002-2007	Government
Trinidad & Tobago	1962	3	3	4.6 ▼	43	Manning	2002-2007	Government
ANDEAN SOUTH AMERICA								
Bolivia	1980*	2 ▼	3	2.3 ▲	106	Mesa	2003-2007	Govt. Coalition
Colombia	1958	4	4	3.7 ▲	59	Uribe	2002-2006	Government
Ecuador	1978*	3	3	2.2	113	Gutierrez	2002-2006	Opposition
Peru	1980*	2 ▼	3	3.7 ▼	59	Toledo	2001-2006	Opposition
Venezuela	1958*	3	4 ▲	2.4 ▼	100	Chavez	2000-2006	Government
BRAZIL AND SOUTHERN CONE								
Argentina	1983*	3	3	2.5 ▼	92	Kirchner	2003-2007	Opposition
Brazil	1989	2 ▲	3	3.9 ▼	54	Lula da Silva	2002-2006	Govt. Coalition
Chile	1989	2	1 ▲	7.4 ▼	20	Lagos	2000-2005	2 Houses Split
Paraguay	1993	4	3	1.6 ▼	129	Duarte	2003-2008	Govt. Coalition
Uruguay	1985	1	1	5.5 ▲	33	Batlle	1999-2004	Govt. Coalition

1: As measured in *Freedom in the World 2003 : The Annual Survey of Political Rights and Civil Liberties.* (www.freedomhouse.org/ratings) *Interrupted democracies

2 Freedom House definition: Those rights that enable people to participate freely in the political process. On this scale 1 represents the most free and 7 the least free.

3 Freedom House definition: Freedoms to develop views, institutions and personal autonomy apart from the state. On this scale 1 represents the most free and 7 the least free.

4: As measured by Transparency International, *2003 Corruption Perceptions Index* (www.transparency.org). Focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The country ranks measure the corruption level in 99 countries as perceived by business people, risk analysts, investigative journalists and the general public. The scores used range from 10 (country perceived as virtually corruption-free), down to close to 0 (country perceived as almost totally corrupt).

▼▲Up or down indicate, respectively, an improvement or a worsening of the political environment from 2002.

Table 12

FISCAL DEFICIT/SURPLUS, 1994-2003

(% of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAFTA REGION										
Mexico	0.0	-0.6	-0.2	-1.1	-1.4	-1.5	-1.3	-0.7	-1.8	-0.6
CENTRAL AMERICA										
Costa Rica	-5.4	-3.5	-4.0	-2.9	-2.5	-2.2	-3.0	-2.9	-4.3	-2.8
El Salvador	-0.7	-0.6	-1.8	-1.1	-2.0	-2.1	-2.3	-3.6	-3.1	-2.1
Guatemala	-1.4	-0.5	0.0	-0.8	-2.2	-2.8	-1.8	-1.9	-1.0	-1.6
Honduras	-5.5	-3.1	-3.5	-2.8	-1.2	-4.3	-5.8	-6.0	-5.2	-5.4
Nicaragua	-3.2	-0.3	-0.9	-0.8	-1.2	-3.8	-5.0	-8.7	-4.1	-2.3
Panama	-0.7	0.8	0.2	-0.4	-4.9	-2.4	-1.3	-2.0	-2.4	-2.6
CARIBBEAN										
Dominican Republic	-0.6	1.1	0.0	0.9	0.6	-3.2	-2.1	-1.9	-2.2	-0.4
Jamaica	**	**	**	**	**	**	**	**	**	**
Trinidad and Tobago	**	**	**	**	**	**	**	**	**	**
ANDEAN SOUTH AMERICA										
Bolivia	-2.6	-1.3	-1.7	-3.6	-4.1	-3.8	-3.9	-7.4	-9.2	-6.6
Colombia	-1.2	-2.1	-3.3	-3.5	-4.7	-5.3	-6.4	-5.3	-4.9	-4.7
Ecuador	-0.1	-1.4	-2.4	-1.2	-4.1	-2.9	0.1	-0.7	-0.8	-0.9
Peru	-3.2	-3.4	-1.5	-0.8	-1.1	-3.2	-2.8	-2.8	-2.2	-1.9
Venezuela	-7.3	-4.3	0.6	1.9	-3.8	-1.6	-1.6	-4.2	-3.3	-3.0
BRAZIL AND SOUTHERN CONE										
Argentina	-0.9	-1.9	-2.8	-1.4	-1.8	-3.0	-2.1	-3.8	-0.3	-0.2
Brazil	-0.6	-5.0	-3.7	-3.0	-4.0	-3.3	-1.2	-1.3	-0.3	-1.1
Chile	1.6	2.4	2.1	1.8	0.4	-1.4	0.1	-0.3	-0.8	-0.8
Paraguay	2.4	0.0	0.0	1.4	0.0	-2.8	-4.5	-1.1	-3.1	-0.8
Uruguay	-2.6	-1.5	-1.4	-1.4	-0.9	-4.0	-4.1	-4.3	-4.6	-3.6
LATIN AMERICA AND CARIBBEAN	-1.8	-1.6	-1.4	-1.1	-2.2	-2.9	-2.7	-3.2	-3.0	-2.4

SOURCE: CEPAL, *Balance Preliminar de las Economías de América Latina y el Caribe, 2002 and 2003*
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Latin American Business Environment Program
Center for Latin American Studies
University of Florida
PO Box 115530
University of Florida
Gainesville, FL 32611-5530 USA

Tel: (352) 392-0375 x808
Fax: (352) 392-7682
www.latam.ufl.edu/labep.html