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# **2009 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT**

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With Timothy McLendon**



**UF** UNIVERSITY of  
**FLORIDA**

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## *Preface*

This is the eleventh edition of the *Latin American Business Environment Report (LABER)*. The goal of the report is the same today as it was at its inception in 1999 -- to present in a single document a straightforward, balanced appraisal of the economic, social, and political events in the past year that have shaped the business and investment climate in Latin America as a region and in its most important economies.\*

The *LABER* is a publication of the Latin American Business Environment Program in the Center for Latin American Studies at the University of Florida. The program draws on the expertise and resources of the University to prepare students for careers related to Latin American business through degree programs, courses and study abroad opportunities. It also organizes conferences, promotes the publication of scholarly research and provides professional consulting services for the business community and public.

Additional support for the *LABER* and related activities is generously provided by the Center for International Business Education and Research (CIBER) in the Warrington College of Business Administration. Special thanks go to Timothy McLendon, Staff Attorney at the Center for Governmental Responsibility of the Levin College of Law, who contributed the materials that strengthened treatment of the legal environment and to Kyle Doherty and William Hummel, who worked with him. David Harmel helped me prepare the final report. Charles Wood edited the 2009 *LABER*. I alone am responsible for the content and analysis.

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\* Electronic versions of all 10 previous reports can be accessed at <http://www.latam.ufl.edu/labe/publications.stm>. The report may be cited without permission, but users are asked to acknowledge the source.



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**2009 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT**

**Terry L. McCoy**

**EXECUTIVE SUMMARY**

**B**uoyed by six years of sustained economic growth, the business environment in Latin America was quite positive, at least through mid-2008. Initially it looked as though the region would not be seriously affected by the subprime financial crisis and the economic slowdown overtaking the United States. But the collapse of global financial markets in September and October quickly made it clear that Latin America was not to be spared. By the end of the year, the outlook for 2009 had turned decidedly negative. Although some countries have been harder hit than others, as the table below indicates, the business environment deteriorated in every one of the 18 largest countries. One year later, as the region entered the final quarter of 2009, there were signs that Latin America was on the road to quick recovery.

The *LABER* classifies 18 countries into three broad categories – “Attractive,” “Problematic,” and “Mixed” – according to the overall character of their environments. The symbols indicate the following changes: improved (▲), deteriorated (▼), no significant change (=) and uncertain (?). Beginning in 2003, the number of attractive environments increased from four to eight as growth and reform spread throughout the region. These favored countries were best positioned to recover from the 2008-09 downturn. Because of its prolonged political crisis, Honduras joined the ranks of problematic environments in 2009.

|              | <i>Latin American Business Environments</i> |             |          |                          |             |          | <u>2010<br/>Outlook</u> |
|--------------|---|-------------|----------|--------------------------|-------------|----------|-------------------------|
|              | <u>2008 Environments</u>                    |             |          | <u>2009 Environments</u> |             |          |                         |
|              | Attractive                                  | Problematic | Mixed    | Attractive               | Problematic | Mixed    |                         |
| Mexico       | =   |             |          | ▼                        |             |          | ▲                       |
| Dom Rep      | =   |             |          | ▼                        |             |          | ▲                       |
| Costa Rica   | =   |             |          | ▼                        |             |          | ▲                       |
| El Salvador  |   |             | ▲        |                          | ▼           |          | ▲                       |
| Guatemala    |   |             | ▲        |                          | ▼           |          | ▲                       |
| Honduras     |   |             | ▲        |                          | ▼           |          | ?                       |
| Nicaragua    |   | =           |          |                          | ▼           |          | ?                       |
| Panama       | ▲   |             |          | ▼                        |             |          | ▲                       |
| Bolivia      |   | ▼           |          |                          | ▼           |          | ▲                       |
| Colombia     |   |             | ▲        |                          | ▼           |          | ▲                       |
| Ecuador      |   | ▲           |          |                          | ▼           |          | ?                       |
| Peru         | ▲   |             |          | ▼                        |             |          | ▲                       |
| Venezuela    |   | =           |          |                          | ▼           |          | ?                       |
| Argentina    |   |             | ▼        |                          | ▼           |          | ▲                       |
| Brazil       | ▲   |             |          | ▼▲                       |             |          | ▲                       |
| Chile        | =   |             |          | ▼                        |             |          | ▲                       |
| Paraguay     |   |             | ▲        |                          | ▼           |          | ▲                       |
| Uruguay      | ▼   |             |          | ▼                        |             |          | ▲                       |
| <b>Total</b> | <b>8</b>                                    | <b>4</b>    | <b>6</b> | <b>8</b>                 | <b>5</b>    | <b>5</b> |                         |

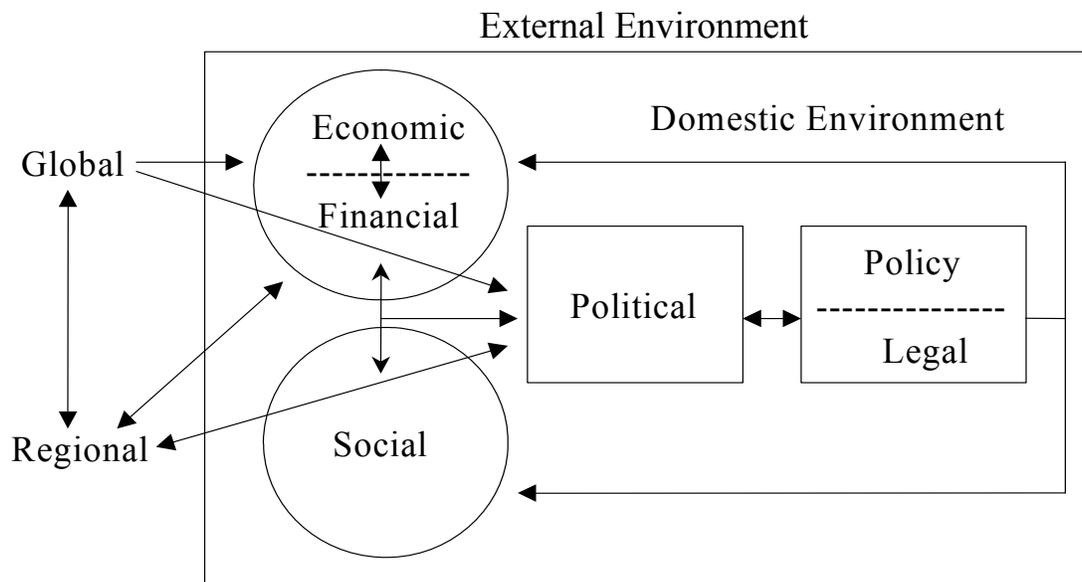


# 2009 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

## INTRODUCTION

Three developments shaped the 2009 business environment in Latin America. The first and most notable event was the economic downturn provoked by the global financial crisis and world recession which abruptly ended the region's six year growth cycle. GDP growth fell in all countries and unemployment grew. Second, it became clear that most countries in Latin America – which has a long history of externally induced economic crises – were better prepared to cope with the 2008-09 crisis because of prudent policy-making and changes in the nature of the global economy. A third and related development were signs that the downturn would be shallow and recovery rapid. By Q4, many countries in the region not only regained lost ground, but even appeared to be in some respects stronger than they were before the onset of the global crisis.

**Figure 1**  
**Components of the Latin American Business Environment**



The analysis here uses the conceptual framework shown in Figure 1 to capture the most salient components of the Latin American business environment. Part I of the *2009 LABER* summarizes major regional developments that took place between the last quarter of 2008 and September 2009. Part II presents thumbnail assessments of the 18 largest markets, grouped by geographic region and/or trading blocs (see Map).<sup>1</sup> Part III presents the outlook for the next 15 months for the region and for the 18 countries. Following the text are tables that contain country-specific data, along with regional averages, for key economic, financial, social, political and legal indicators that were used in the analysis. At the end there a list of publicly available sources that were monitored to compile the *2009 LABER*.

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<sup>1</sup> Venezuela, a founding member of the Andean Community (CAP), has applied for full MERCOSUR membership. Bolivia is a member of CAP and associate member of MERCOSUR. Chile rejoined CAP in 2007 and is an associate member of MERCOSUR.





## ***I. REGIONAL OVERVIEW***

### **EXTERNAL ENVIRONMENT**

Beginning with the meltdown of world financial markets in September 2008, the external environment with which Latin America was linked through trade, capital flows, tourism and migration became dramatically adverse. The financial crisis dried up access to credit and foreign investment. More devastating still was the subsequent global economic slowdown which spread from the mature economies to the emerging markets. This meant a decline in the volume of exports, reduced revenues, and a drop in the flow of remittances. In the past, Latin America's recovery largely depended on recovery in the mature economies, but that was before Latin American trade and investment became more closely tied to dynamic emerging markets, especially China. As a result of the shift in the region's relationship with other countries in the global economy, Latin American countries engaged in the export of natural resources benefitted from rising commodity prices in the second semester of 2009 as nations including China tried to pull themselves out of the economic doldrums by increasing their own domestic demand through consumer spending and consumption. Other changes, such as the measures taken during the growth period to build up reserves and reduce debt, also made Latin America less vulnerable to the global credit squeeze.

#### ***Global Developments ▼ ▲ <sup>2</sup>***

- ***Impact of global financial meltdown was contained***  
The collapse of global financial markets brought an end to the surge in foreign direct investment or FDI (Figure 3, Table 4), and contributed to a drop in local stock markets and increases in country risk ratings in late 2008 and early 2009. However, by mid year risk spreads began to narrow, and Latin American equities rallied to regain much of what they had lost. In early October, all of the major regional markets were up at least 33% for the year in dollar terms.

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<sup>2</sup> Symbols indicate developments of key components of environment: ▲ improved; ▼ deteriorated; = no significant change since 2008 report.

- International lending institutions expanded financial support**

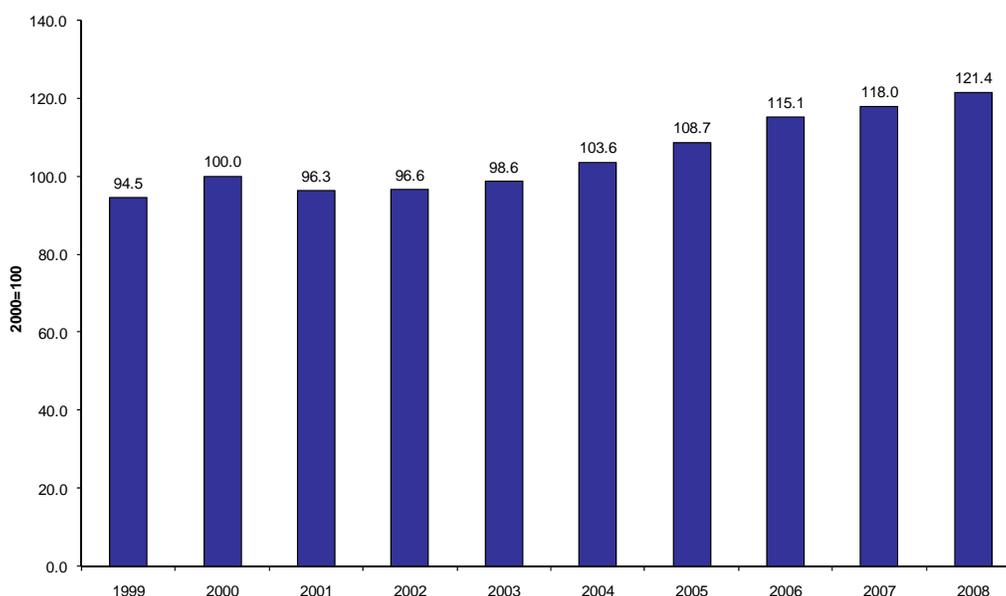
The IMF re-emerged as an important source of back-up financing for Latin America. It launched the Flexible Credit Line to provide short-term stand-by loans to emerging economies hard hit by the financial crisis. Unlike other Fund programs, it did not impose conditions on those borrowers judged to have sound policies. Mexico, Colombia, Peru and Costa Rica applied for assistance under the new line (Table 8). Other Latin American countries sought credit under traditional credit lines that do carry conditionality.
- Global trade and commodity prices began to recover**

The global slowdown took its toll on trade flows and commodity prices. Between July 2008 and January 2009, the index of world export volume (2003=100) dropped from 150 to 120 (according to the UN Economic Commission for Latin America and the Caribbean or ECLAC). For Latin America, this was predicted to translate into an 11% drop in export volume for 2009, the biggest decline since the Great Depression, and a 14% drop in imports. Latin America's terms of trade, which had surged for the South American resource exporters (Figure 2, Table 3), also deteriorated. Commodity prices improved during the first half of 2009 (H1 2009) largely due to Chinese purchases that took advantage of relatively low prices to restock reserves, and due to the government's large infrastructure stimulus. However, the Chinese spending spree slowed in H2 2009, and the prolonged recession in the mature economies limited the price recovery for agricultural commodities and especially for minerals. There were signs of a mid-year recovery in global trade flows in Latin America, evidenced by gains in June of 14.3% in exports and 11.9% in imports.

**Figure 2**

**Terms of Trade for Latin America, 1999-2008**

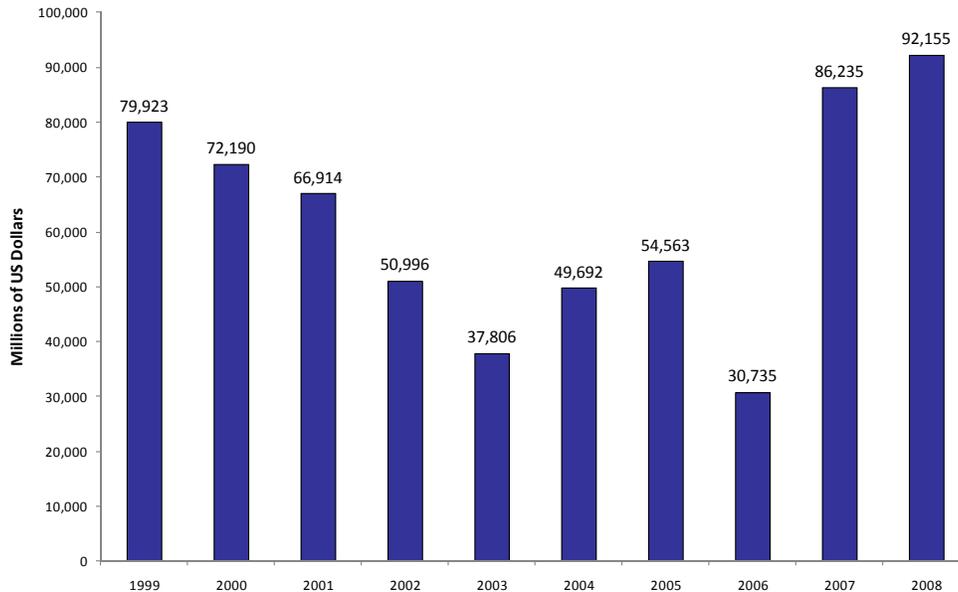
(Source: ECLAC 2009)



**Figure 3**

**Net Foreign Direct Investment in Latin America, 1999-2008**

(Source: ECLAC 2009)



- ***World trade negotiations stalled but emerging economies gained influence***  
Against the backdrop of declining global trade flows and threats of protectionism, the World Trade Organization (WTO) in September announced that the Doha round would resume, although none of the key players had modified their positions. The September announcement that the G-20 would replace the G-8 as the principal global economic forum was recognition of the growing importance of emerging markets in global commerce. Brazil, Mexico and Argentina are members of the G-20.

***Regional Developments =***

- ***U.S. administration sought to rebuild relations with Latin Americas***  
President Barack Obama took advantage of the April summit in Trinidad & Tobago to begin to repair relations in the hemisphere. At the summit, he announced a new policy on Cuba, but fell short of calling an end the embargo, as the Latin American leaders had urged. Obama gave priority to strengthening relations with Mexico and Brazil as regional powers. His promise of closer collaboration and sensitivity to Latin America was tested again in June in the Honduran crisis when Washington sided with the Latin American governments in demanding restoration of the deposed president.
- ***Little movement on trade front***  
With the free trade agreements with Colombia and Panama awaiting final congressional approval, the Obama administration relegated trade policy to the backburner. The most important developments concerning economic integration occurred in South America, where the South American Union (UNASUR) had some success in establishing itself as a regional political bloc. Venezuela continued to promote the Bolivarian Alternative for the Americas (ALBA) as a bloc of nations independent of the U.S.

## DOMESTIC ENVIRONMENT

The domestic environments of all 18 countries began to deteriorate in the last quarter of 2008. The higher unemployment and the increase in poverty caused by the decline in GDP had negative social consequences and threatened political instability.. By Q3 2009 there were signs that some countries were coming out of the downturn, and by Q4 the regional economy was on the road to recovery. In addition to the region's growing ties with China, observers also credited the unexpectedly rapid recovery of Latin America to aggressive policies, especially in countries that lead the recovery.

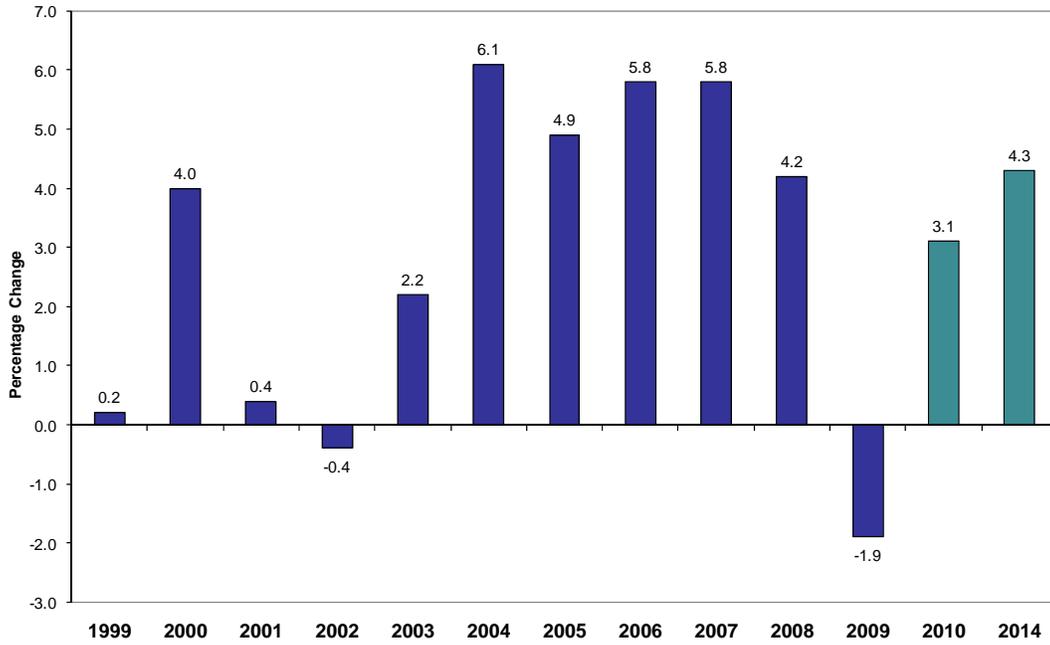
### *Economic and Financial Performance* ▼ ▲

- ***Economies stopped growing and then began to recover***  
In 2009 regional GDP growth was negative for the first time in seven years (Figure 4), and nine of the 18 economies were in recession (Table 1). However, most of the economies were expected to grow again by the end of the year. All are forecast to return to positive growth in 2010.
- ***Inflation declined***  
Slower growth reduced the inflationary pressures which had increased during the first three quarters of 2008 (Figure 5, Table 2), and allowed central banks to lower interest rates in an effort to stimulate recovery.
- ***Capital markets began to recover***  
Effective macroeconomic policies and preventative measures protected capital markets and triggered renewed inflows of capital, which helped local stocks regain much of what they lost at the end of 2008. These policies, where pursued, also insured that the renewed inflows would not generate speculative bubbles.
- ***Encouraging external performance under difficult circumstances***  
Many countries took advantage of positive balances of trade and current account surpluses (Figure 6, Table 5), as well as growth in FDI (Figure 3, Table 4), to pay down their foreign debt (Figure 7, Tables 6 and 7) and build up reserves, actions that insulated Latin America from external shocks in a way that had not occurred in past financial crises. As a sign of international confidence, Latin American currencies regained much of what they had lost against the U.S. dollar (Table 8). Mexico, Brazil and Colombia took advantage of the lower cost of borrowing to float large bond issues in September and October. Remittances to the region – especially important to Central America and the Caribbean – were expected to fall 11% in 2009, largely due to the economic slowdown in the U.S.

**Figure 4**

**GDP Growth for Latin America, 1999-2014**

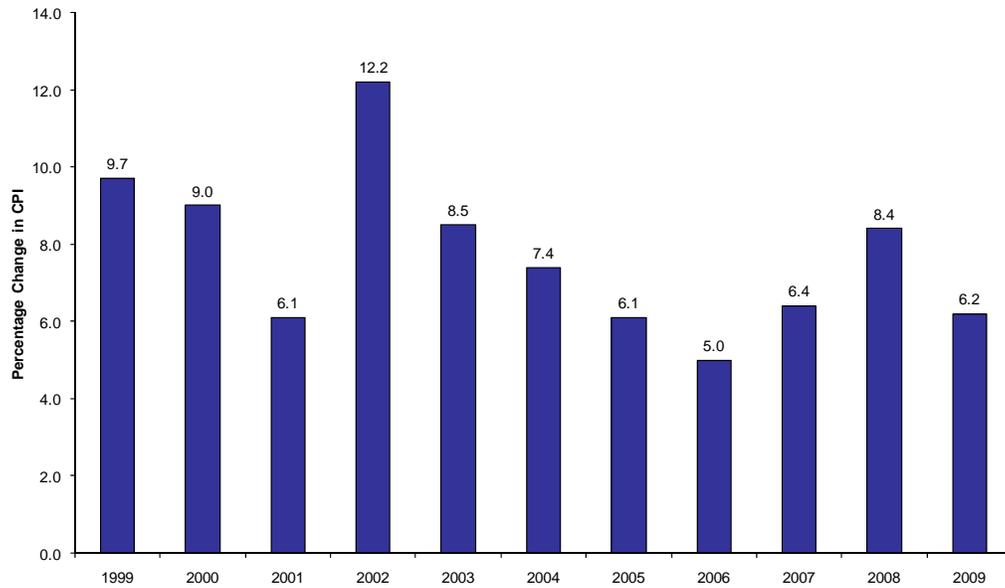
(Sources: ECLAC 2009, IMF 2009)



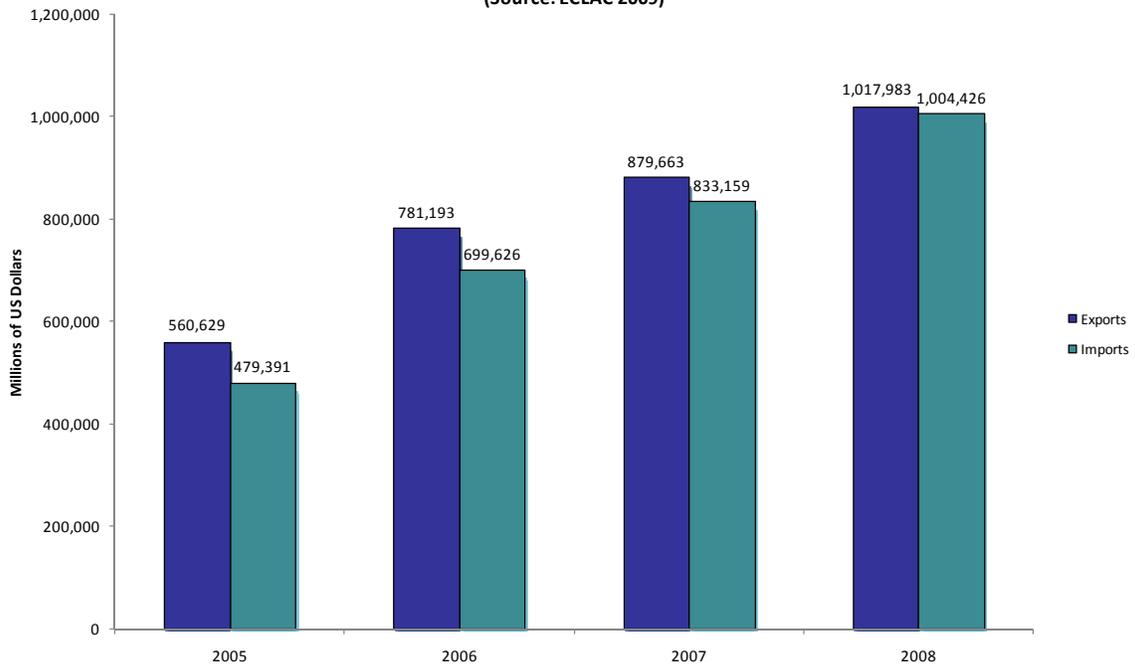
**Figure 5**

**Average Annual Inflation Rate for Latin America, 1999-2009**

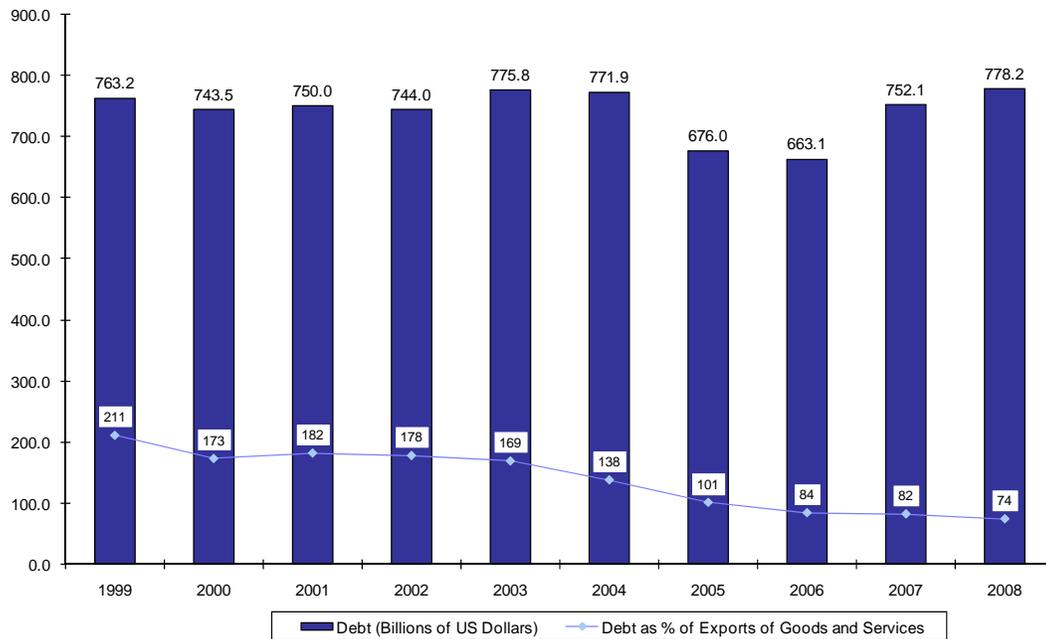
(Source: ECLAC 2009)



**Figure 6**  
**Exports and Imports of Goods and Services in Latin America, 2005-2008**  
 (Source: ECLAC 2009)



**Figure 7**  
**Gross Disbursed External Debt, 1999-2008**  
 (Source: ECLAC 2009)



## ***Social Environment ▼***

The six years of growth strengthened the social environment in important ways: generating formal sector jobs and reducing unemployment; raising incomes and reducing the poverty rate and even lessening inequality in Latin America (Table 9). Per capita GDP grew at an annual average rate of over 4.0% between 2004 and 2008. Targeted income transfer programs, funded by increasing fiscal revenues, had a further positive effect on the social environment. The economic downturn that began in late 2008 began to reverse these gains. It is estimated that each 1.0% decline in GDP increases the poverty rate by 2 to 3%. Lack of jobs and rising poverty also threatened to increase the incidence of crime and violence, which were among the highest in the world.

- ***Unemployment grew as growth fell***  
ECLAC estimated that in March 2009 the combined unemployment rate in the nine largest economies jumped to 8.5% from 7.9% a year earlier, and that, by the end of the year, the urban unemployment rate would range between 8.7% and 9.1%.
- ***Anti-poverty programs cushioned impact of crisis***  
Various cash transfer programs, which target the poor on the condition that parents keep their children in school and provide them medical attention, benefitted 100 million in Latin America in 2009.

## ***Political Environment =***

The political environments of Latin America continued to diverge along two paths. While the majority of countries adhered to the model of constitutional representative democracy that emerged in the 1980s, Venezuela headed a radical populist bloc based on direct participatory democracy that resorted to periodic plebiscites to remove obstacles to re-election, to concentrate power in the presidency, and to expand the state's role in the economy. For the most part the political environment was yet to be altered by the economic crisis, although echoes of the kind of

political instability that has afflicted the region in the past were manifest in Honduras when President Zelaya was forcibly removed from office.

- ***Elections ratified status quo***  
There were only three presidential elections. In Central America voters delivered victories to the center-left in El Salvador and center-right in Panama. Ecuadoreans gave populist president Rafael Correa a second term.
- ***Populist regimes pushed through constitutional reforms***  
The 2008 constitutional referendum made it possible for Correa to run for re-election. Bolivians approved a referendum permitting a second term, and Venezuelan voters strengthened President Hugo Chavez when they approved a referendum that abolished term limits and expanded the powers of the president.
- ***Strong support for incumbents***  
Public opinion polls registered surprisingly high approval ratings – given their economic difficulties – for the presidents of Brazil, Chile, Colombia, Costa Rica, Peru and Uruguay, in part because of their responses to the economic crisis.
- ***Breakdown of constitutional rule in Honduras challenged hemisphere***  
Beyond the implications for the future of democracy in Honduras, the removal of an elected president raised the specter of a return of military intervention in politics, and questioned the ability of inter-American community of government to influence the behavior of one of its member states.

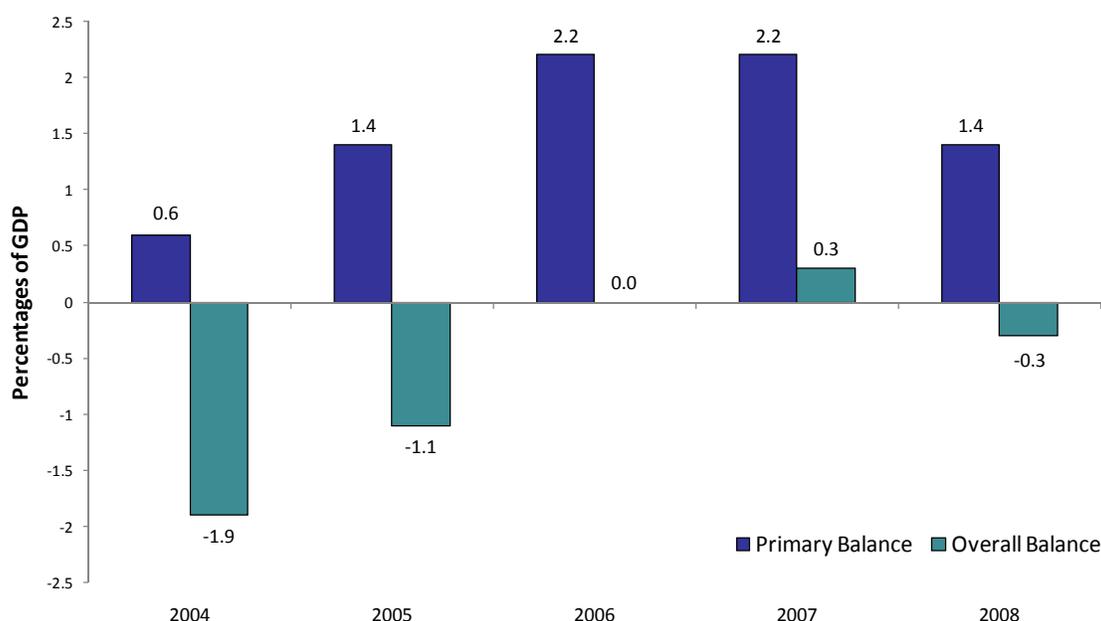
### ***Policy Environment ▲***

Sound fiscal policies were widely credited with moderating the impact of the worst external shock since the Great Depression and facilitating a rapid recovery. In contrast to previous economic crises, this time around the policies adopted by many countries proved to be a source of strength. During the boom, governments in these countries – some more effectively than others – built up fiscal surpluses (Figure 8, Table 11), managed interest rates to keep inflation within pre-announced targets, adhered to floating exchange rates, and set aside external surpluses as a means to build up reserves and pay down the external debt. When the crisis came, the cushion provided by such policies enabled countries to lower interest rates and draw on fiscal and foreign reserves to stimulate their economies. Taken together these policies engendered a

level of confidence that both avoided the financial meltdowns of the past (1994-5 peso crisis, for example) and helped restore capital flows.

- Measures to boost liquidity and restore investor confidence**  
 In addition to lowering benchmark interest rates to historically low levels, central banks relaxed reserve and other requirements.
- Countercyclical fiscal policies**  
 Governments implemented spending measures to assist small and medium enterprises, agriculture, housing and infrastructure investment. They also cut taxes or gave targeted tax breaks to spur investment and consumption. The magnitude and impact of these measures depended in large part on the fiscal resources available. The Brazilian countercyclical package was the largest, amounting to 8.5% of GDP, while Chile, Colombia and Mexico spent between 2.4 and 2.8% of GDP, according to ECLAC.
- Governments expanded control over energy sector**  
 Resource nationalism spread to Brazil with the government’s plan to limit private participation in exploitation of the “pre-salt” oil fields in the Atlantic.

**Figure 8**  
**Central Government Balance for Latin America 2004-2008**  
 (Source: ECLAC 2009)



## ***Legal Environment =***

In terms of rule of law, incidence of corruption, economic freedom, property rights and crime victimization, Table 12 again shows considerable difference among the legal environments of the 18 largest economies. Chile, Uruguay and Costa Rica had relatively strong environments, while Venezuela fell near the bottom on most indicators. The pattern was somewhat different regarding the bureaucratic barriers to conducting business (Table 13), although Chile was again at the top and Venezuela at the bottom. Over the past year there were both setbacks and advances in the region's legal environments.

- ***Radical populist regimes weakened legal environment on several fronts***  
The rule of law was compromised by overt interference by strong executives, often including disputes with the judiciary that resulted in the replacement of recalcitrant judges. Venezuela and Bolivia, along with Colombia and the Dominican Republic, acted to abolish or change term limits allowing an otherwise tenure-limited president to seek reelection. Property rights were also under siege in several countries. The expropriation of property was most extensive in Venezuela, where land, industry and the media were targeted. In Ecuador, the repudiation of foreign debt and the withdrawal from international investment dispute resolution mechanisms prompted similar fears. Argentina's nationalization of private pensions last fall likewise marked a significant encroachment on the part of the state on private property.
- ***Ongoing judicial and procedural reform***  
Several countries have continued to reform their judiciaries. Brazil established a procedure to set nationwide standards for judicial ethics and behavior and to enforce these standards by removing corrupt or incompetent judges. Mexico and Chile continued with reforms that affect criminal and civil processes.
- ***Increasing protection of intellectual property rights***  
As part of its ratification of DR-CAFTA, Costa Rica modified its trademark laws, and entered into several international conventions on property rights. Peru likewise modified its border controls to target pirated goods. Chile and Peru signed the Patent Cooperation Treaty this past year. In each of these cases, the legal changes were prompted by commitments in free trade agreements with the United States and/or the European Union. Colombia, under its free trade agreement with the United States (yet to be ratified by the U.S. Congress), would also accede to the Patent Cooperation Treaty.
- ***Tax reforms***  
Prompted in part by the need to make their countries more competitive and the need to encourage the repatriation of capital from abroad, several countries, including Argentina,

Brazil, El Salvador and Mexico, modified their tax codes to simplify obligations, or to provide for limited amnesties for declaration and repatriation of assets held abroad.

- ***Violence and crime challenges to rule of law***

In Mexico, continued drug- and gang-related violence caused the death of thousands and prompted the federal government to send troops to several violence-ridden states. In Peru, the Shining Path, once thought defeated, re-emerged as a threat in parts of the country. Although the guerrilla movements in Colombia have been driven back in recent years, serious threats remained – as did the problems of dealing with the results of displacement and the paramilitary violence. Guatemala and El Salvador continued to deal with the legacy of guerrilla violence. A deterioration of economic and social conditions in Venezuela made Caracas one of the world's most dangerous cities.



## ***II. COUNTRY PROFILES***

### **NAFTA REGION**

Mexico's dependence on the U.S., deepened by the integration of the two economies under NAFTA, meant that the decline in trade, the lower investments and the reduced remittances caused by the U.S. recession were especially hard on the Mexican economy. . Another challenge that affected the two North American neighbors was the escalation of violence linked to the flow of drugs and weapons across their shared border. In the midst of these economic and social challenges, the two countries entered into a nasty trade dispute in March when Washington reneged on its NAFTA obligation to allow Mexican truckers across the border to deliver cargo in the U.S., prompting Mexico to retaliate by levying tariffs on certain U.S. products.

In this unfavorable context, and in light of the deterioration in U.S.-Mexican relations under the Bush regime, President Obama set out early in his administration to repair bilateral relations between the two countries. Both he and Secretary of State Clinton made high profile visits to Mexico in the spring, and Obama backed away from his campaign call to renegotiate NAFTA. The two governments redoubled efforts to combat drug trafficking and violence through the Merida Initiative. At the "Three Amigos Summit" in mid-August, the leaders of the NAFTA countries pledged to cooperate to deal with issues facing North America, but the fact remained that, while trade and investment increased dramatically in the early years of NAFTA, the integration of North America has begun to run its course, and bilateral relations continued to dominate the agenda.

**Mexico ▼<sup>3</sup>**: Global economic crisis and escalating drug violence presented serious challenges.

- ***Economy fell into deep downturn***

Mid-year forecasts predicted that in 2009 GDP would drop 7.0%, resulting in the steepest decline since the 1930s and the deepest in Latin America. There were signs that the economy bottomed out in Q2 and would begin to grow. In late August the stock market was up for the year 33% in dollar terms, but still not up to its 2008 high.

- ***Integration with U.S. increased vulnerability***

Unlike past crises (most recently the 1994-5 Tequila crisis), the current one did not originate locally, and Mexico was much better prepared to cope with falling exports, FDI and remittances (down by an estimated 20%) and declining trade (exports to U.S. down 36% in May). Measures to reduce the dollar-denominated debt and build up reserves cushioned the impact of the credit meltdown. In late March, the Mexican government set up a \$47bn Flexible Credit Line with the IMF, and it implemented a \$30bn currency swap with the U.S. Federal Reserve. These measures, combined with strong fiscal and monetary policy, helped Mexico retain investment grade credit rating. The peso rallied mid-year to regain some of the ground lost against the dollar.

- ***Drug-related violence and swine flu weakened social environment***

The dramatic escalation in drug related violence, and the shocking impunity of the perpetrators, raised the image of Mexico as a failed state, although Mexico's effective response to the swine flu outbreak helped restore the government's credibility. It was nonetheless apparent that the social problems facing the country had deepened. Official unemployment rose to 6.12% in July, the highest figure on record.

- ***Opposition won control of Congress***

The PRI, the leading opposition party, doubled its seats in the lower house, which has exclusive control over the budget, and won key gubernatorial posts in July mid-term elections. In coalition with the small Green Party, the PRI-led opposition will control Congress for the remaining three years of President Calderon's term. The electoral defeat did not diminish Calderon's personal popularity (nearly 70% in September polling).

- ***Macroeconomic policies secure but passage of key reform measures uncertain***

Mexico did not deviate from its market-friendly macroeconomic policies, and throughout the year employed them to implement counter-cyclical monetary and fiscal measures to stimulate the economy. In September, the central bank left the benchmark interest rate unchanged at 4.5% for the second month in a row in anticipation that the recovery was beginning. With the opposition in control, Congressional approval of fiscal, labor, energy and state reforms pushed by Calderon are likely to be more difficult. Of continuing concern was the need for further opening of hydrocarbons to private capital as oil and gas production continued to decline.

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<sup>3</sup> The symbols for each country indicate the following overall trends: ▲ business environment improved, ▼ business environment deteriorated, = no significant change since 2008 report.

- ***Important legal reforms***

November 2008 reforms gave PEMEX greater autonomy and budgetary control, as well as the right to contract with private firms, both foreign and domestic. Contractors are limited, however, to exploration and production because the opposition included language which expressly prohibits the private sector's participation in transportation, storage, or refining. Reforms of criminal procedures aimed to reduce the backlog in cases moved Mexico closer to U.S.-style judicial system. In an attempt to reduce violence and to free up police to address more serious drug trafficking, Congress decriminalized the possession of small amounts of illegal drugs.

## **DR-CAFTA COUNTRIES**

By virtue of their dependence on the U.S. through trade (reinforced in the 2006 by the DR-CAFTA trade agreement), tourism, investment and remittances, it was inevitable that the global financial crisis and economic slowdown that had its origins in the U.S. would be hard on the economies of Central America and the Dominican Republic. Of the seven countries, all but two – the Dominican Republic and Panama – were expected to finish 2009 with negative GDP growth. The outlook for 2010 was brighter in part because of recovery in the U.S., but the lack of major commodity exports (reflected in the region's comparably weak terms of trade) meant that the DR-CAFTA countries did not benefit directly from the more robust Chinese recovery.

Even more damaging for Central America were political developments, which not only tested regional integration but also raised doubts about the strength of democratic governance. Suspicion of fraud in the November 2008 municipal elections in Nicaragua reinforced the impression that President Daniel Ortega was consolidating power along the lines of his close ally, Hugo Chavez, in Venezuela. There was a scandal in Guatemala triggered by charges (later proven without merit) that the president was behind the assassination of a leading political figure. Most unsettling, however, was the late June military intervention in Honduras that removed the elected president, and the subsequent failure of Central American leaders to broker

a settlement that allowed the restoration of constitutional rule. The breakdown of democracy in Honduras, which echoed the political chaos that gripped Central America during the 1980s, overshadowed the peaceful transfers of power in El Salvador and Panama, and represented a setback to the deepening of regional integration underway in the past decade.

Central American heads of state met in December 2008 to discuss strategies to combat the credit crisis. The result was a 41-point economic agreement which proposed increased integration, food security, and investment. Integration measures included a plan to “standardize laws” in the areas of immigration, education, and security, and to implement a common currency for the region. In July 2009, the International Court of Justice (ICJ) ruled on a long-running dispute between Nicaragua and Costa Rica over control of the San Juan River, which borders both countries. The ruling allows Costa Rica free navigation for all commercial navigation, including tourism. The court ruling upheld Costa Rica’s objection to Nicaragua’s attempt to require obtain visas and pay fees, but affirmed Nicaragua’s right to deny use of the river to Costa Rican police forces.

***Dominican Republic ▼***: Strong environment coped with downturn.

- ***Growth slowed***  
The brisk GDP growth that resumed after the 2003-04 banking crisis disappeared in the Q4 2008. Although early 2009 forecasts called for negative growth, subsequent forecasts predicted low to modest growth in 2010. Under these conditions inflation remained moderate.
- ***External performance declined***  
The U.S. recession translated into falling demand for Dominican exports, declining FDI (from 2008’s record level), and fewer tourists. Remittances from the large Dominican expatriate community in the U.S., which account for over 9% of GDP, were expected to fall by as much as 10%. Lower oil prices partially offset these losses and kept the current account deficit down. In May the country reapplied for full membership in CARICOM (with which it had a free trade agreement). Although the economic benefits to be derived from membership would be small, it would facilitate negotiating an Economic Partnership Agreement for CARICOM with the EU. In early September, the government reluctantly requested a \$1.5bn loan from the IMF to cope with the crisis.

- ***Policy options limited***  
A deteriorating fiscal position limited the government's ability to implement counter-cyclical spending programs. The overall fiscal deficit, which reached 3.2% of GDP in 2008, continued to swell.
- ***New constitution near approval***  
The Constitutional Revision Assembly, the sixth constitution since gaining independence from Spain in 1865, was expected to approve the text of a new constitution that would include reforms to relax restrictions on presidential succession, and facilitate changes to the judiciary. In December 2008 the legislature authorized the formation of limited liability companies and limited sole proprietorships in order to facilitate the creation of small and family-run businesses, a legal status previously limited to large and medium-sized *Sociedades Anonimas*.

**Costa Rica ▼:** Multiple responses to deep downturn.

- ***Economic growth turned negative***  
GDP growth, averaging over 5% since 2003, was expected to take one of the biggest drops in Latin America. The downturn reduced inflation, which averaged in the double digits in the same time period. Between September 2007 and September 2008, the consumer price index experienced the highest rate of increase in 10 years. Over the succeeding 12 months, the increase was the lowest in 10 years.
- ***Difficult external environment***  
In November 2008 the General Assembly, following a closely contested public referendum, gave final approval of DR-CAFTA, which locked in preferential trade arrangement with the U.S. In an effort to diversify its external relations, the government initiated free trade negotiations with China. In April it secured a \$735mn line of credit with the IMF to moderate the impact of the adverse global environment. The trade deficit widened as exports fell faster than imports.
- ***Country geared up for 2010 elections***  
Both of the major political parties selected their presidential nominees – Laura Chinchilla of the ruling PLN, who served as a vice president and minister in the Arias administration, and Otton Solis of the PAC, who came close to winning in 2006.
- ***Policy focus shifted to countercyclical measures***  
With inflation falling, the government announced in late January the “Shield Plan” which featured a mixture of cash transfers, relaxed regulations and public spending designed to assist families, workers, small businesses. The plan also helped financial sector cope with the crisis and lay the groundwork for recovery.
- ***DR-CAFTA altered legal environment***  
The agreement opened the state-run telecommunications and insurance industries to private investment, and strengthened the protection of intellectual property rights.

Congress enacted the nation's first law to address organized crime. Among other things, the new law allows judges and prosecutors to lift bank secrecy in cases of organized crime, and provides for longer prison sentences for those convicted of organized crime.

**El Salvador ▼:** New government inherited economic downturn and related social deterioration.

- ***Modest economic performance weakened***  
GDP growth, which was the weakest in Central America over the decade, turned negative in 2009 with a moderate uptick expected in 2010.
- ***Declining trade, investment and remittances***  
While the new government recognized Cuba, it re-asserted the country's special ties with the U.S. Washington reciprocated with pledges of continued support. The outgoing administration negotiated an \$800mn precautionary standby loan with the IMF.
- ***Crime and violence constituted serious social problem***
- ***March election produced victory for left***  
Mauricio Funes, a former TV newsman, ran a centrist campaign and won a historic victory for the FMLN, the leftwing party of the guerrillas who fought against the government in the bloody civil war of the 1980s. On taking office, Funes affirmed his adherence to the pragmatic Latin American left, but he had to satisfy both the moderate and radical wings of his own party, and must deal with a legislature in which he does not have a majority.
- ***Continuation of centrist policy agenda***  
The new administration went out of its way to assure the private sector and international investors that it would do nothing to jeopardize El Salvador's reputation as a business friendly country. Dollarization and deteriorating fiscal accounts limited its counter-cyclical and social policy options.
- ***Compromise on supreme court membership***  
In June the term of office for five of fifteen Supreme Court judges expired, which caused a political crisis when the President sought to change the legislative assembly's traditional, and highly partisan, power of appointment. Under a compromise agreement the presidency of the court went to a member of the conservative opposition, and the remaining positions were distributed among the parties.

**Guatemala ▼:** Economic and political crises challenged the environment.

- ***Growth turned negative***  
The downturn brought an end to a decade of economic growth but also reduced inflationary pressures.

- ***Violence, growing unemployment and poverty undermine social environment***  
Violence linked to organized crime, drug trafficking and youth gangs gave Guatemala one of the highest homicide rates in the world. In September the government declared a “public calamity” to deal with a wave of hunger and malnutrition caused by a drought and the economic crisis.
- ***President survived calls for resignation***  
Although President Colom resisted calls for his resignation over charges that he was involved in the assassination of a prominent political opponent, his already weak government suffered further loss of power. The scandal also underlined the degree to which violence and corruption penetrate politics and society.
- ***Measures to reduce violence and impunity strengthened weak legal environment***  
Congress in April approved a new law to combat arms and munitions. In July, it extended for two years the mandate of the UN’s International Commission against Impunity to investigate links between organized crime and the state. Its continued relevance was demonstrated by the dismissal in August of the head of the national police, together with his assistant and several deputies, for suspicion of being involved in narco-trafficking. Guatemala adopted a secured transaction law that allows borrowers to use property as collateral and thereby increase credit flows.

**Honduras ▼** : Political crisis was serious setback for environment.

- ***Political crisis deepened economic downturn***  
Because of the conditions it shares with the rest of Central America, the economy was headed for a significant slowdown, following five years of healthy growth. The June 28 removal of President Zelaya accelerated the fall in exports, tourism, investment, and consumer spending.
- ***De facto government faced hostile external environment***  
The UN, the OAS and international community quickly condemned the removal of elected President Zelaya and adopted sanctions to force the de facto government of Roberto Micheletti to return Zelaya to office. In an unlikely alliance, both the U.S. and Venezuela insisted on restoring the deposed president. In September Washington terminated \$30mn in aid it had earlier suspended.
- ***Removal of president further polarized politics***  
Events leading up to the removal of President Zelaya – his growing alignment the ALBA bloc promoted by Venezuela’s Hugo Chavez, and steps to amend the constitution – had polarized the political environment, but his removal and subsequent resistance of the interim government to a negotiated reinstatement produced a political stalemate and put the November presidential election in doubt.
- ***Policy-making paralyzed***

**Nicaragua ▼**: Volatile politics unsettled weak environment.

- ***Economic downturn***  
After enjoying a modest growth cycle, GDP turned negative, and outlook for 2010 was for a weak recovery. Inflation declined in 2009.
- ***External environment turns negative***  
During the growth cycle FDI flow helped offset Nicaragua's weak terms of trade. Tourism grew by more than 7.0% in 2008. International assistance helped hold down external and fiscal deficits and allowed Nicaragua to reduce its debt burden. All of these flows declined in 2009. The U.S. cut back on bilateral and Millennium Challenge Corporation assistance because of the unresolved dispute over municipal elections. European donors also reduced aid. President Chavez of Venezuela promised to make up the difference with ALBA support, but it was not clear if he could fill the gap.
- ***Weak social environment***  
Nicaragua had the second highest rate of illiteracy the lowest per capita income (measured in purchasing power parity terms) and ranked last of the 18 countries on the Human Development Index of the LABER countries (Table 9).
- ***Controversy surrounded municipal elections***  
Working with pliable state institutions, and with their former enemies in the Liberal Conservative Party (PLC) of former president Aleman (whose sentence for conviction on embezzlement had been reduced to house arrest by the government and was then quashed by the Supreme Court), the Sandinista government consolidated its control of all levels of government to minimize the possibility of opposition gains in the November 2008 elections. The elections themselves generated widespread charges of fraud and political paralysis that was broken when the PLC voted to approve the Sandinistas running the National Assembly.
- ***Macro-economic policy adhered to orthodox measures***
- ***Controversial legal reforms***  
The government joined with conservative allies and Catholic and evangelical churches to pass one of the most draconian abortion laws in the world. In another controversial move, Ortega decreed new import taxes which would be collected and administered by the supreme court, thus circumventing the finance ministry. Legal experts protested that the decree is unconstitutional because only the legislature is constitutionally authorized to create or modify taxes.

**Panama ▼**: Business-friendly administration inherited strong economy.

- ***Growth dipped but fast recovery expected***  
Between 1999 and 2008 Panama registered the highest rate of growth of the 18 countries (Table 1). Recently expansion of the Panama Canal boosted annual GDP growth above

10%. In 2009 it was expected to expand at only 2.5% (tied with Bolivia for the highest) while doubling to 5.0% in 2010.

- ***Panama awaits ratification of FTA with U.S.***  
Under pressure from Congress, the Obama administration set aside plans for quick consideration of the FTA, pending Panama's reform of banking secrecy laws and labor rights. FDI, an important determinant of the recent growth spurt, declined in 2009.
- ***Growing threats to personal security***  
Drug trafficking and related criminal activities caused a jump in homicide rate.
- ***Opposition captures presidency***  
Conservative businessman Ricardo Martinelli won a landslide victory in the May election, and his electoral alliance won a majority in the National Assembly. The new president filled his cabinet with nominees from the business community along with members from the rival political parties.
- ***Crisis postponed policy reforms***  
As a candidate Martinelli pledged to strengthen security, reform the tax system and increase countercyclical public infrastructure investment. However, a deteriorating fiscal situation limited the government's ability to act. Declining canal toll revenues also weakened the fiscal outlook, although the economic downturn did not threaten canal expansion.
- ***Tax reforms for multinational companies***  
The government introduced new rules governing tax incentives for multinational companies headquartered in Panama. Under the new rule, companies that hold the appropriate license (*la Licencia de Sede de Empresa Multinacional*) are exempt from income taxes in Panama for services rendered abroad by their affiliates. The new regulations allow companies to sponsor unlimited visas for employees, which mean that their workforce no longer has to consist of 90% Panamanian citizens. The new government also pledged to reduce corruption and red tape.

## **ANDEAN SOUTH AMERICA**

The resource exporting economies of the Andean region continued to grow well into 2008 thanks to favorable terms of trade generated by high commodity prices, and the subsequent slowdown was less than in the rest of Latin America. However, the overall profile for the region was far from healthy. The business environments of three – Bolivia, Ecuador and Venezuela – of the five countries were problematic due to weak institutions, populist politics, and growing

state intervention in their economies. The three problematic environments also ranked lowest on rule of law and at the top in corruption in Latin America. Peru, Bolivia and Ecuador had to deal with protests by indigenous communities objecting to government proposals to open their lands to energy, mining and agriculture development by private investors.

Tensions among the member countries of the Andean Community weakened regional trade and unity. Most serious was the ongoing dispute between Venezuela and Colombia. In July, President Chavez froze diplomatic relations and took steps to disrupt trade between the two neighbors, who are each others' second biggest trading partners (the U.S. being the first for both). In addition, Ecuador and Colombia had not yet resumed diplomatic relations that were broken in 2008 over a Colombia troop incursion into Ecuador. Peru presented its case to the International Court of Justice (ICJ) for a redefinition of Peru's maritime border with Chile, which had rejoined the Andean Community in 2007. The two countries have growing trade ties, making the ongoing litigation a sensitive issue. Chile did not challenge the jurisdiction of the ICJ over the matter, but will contest the claim in court. These disputes were a blow to the Andean Community from which Venezuela had withdrawn in 2006 to cast its lot with ALBA and MERCOSUR as a step toward consolidating a South American bloc. The assistance of the Andean Development Corporation was a bright spot.

**Bolivia ▼:** Political and economic developments gave some stability to weak environment.

- ***Economy avoided deep downturn***  
GDP growth dropped but stayed positive and was among best in region. Inflation declined. Outlook for 2010 is for a modest uptick.
- ***Mixed external performance***  
Through 2008 Bolivia continued to take advantage of favorable terms of trade, growing exports and current account surpluses to reduce its debt and build up the international reserves that helped it cope with the global crisis. The managed exchange rate regime minimized the currency volatility experienced elsewhere in Latin America. FDI flows

were modest but positive despite strong resource nationalism. The relationship with the U.S. seemed on the mend, but in June the U.S. declared that Washington was not renewing Bolivia's duty-free trade privileges under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The Office of the United States Trade Representative explained that the reason for the decision was the "explicit acceptance and encouragement of coca production at the highest levels of the Bolivian government."

- ***Morales consolidated political position***

In a repeatedly postponed referendum, voters in January approved a new constitution that expanded indigenous rights, expanded state control of the economy, and allowed the president to run for re-election once. It was increasingly apparent that, although Bolivia remained polarized, Morales has reconfigured Bolivian politics into a dependable majority supporting him and his policies against a divided opposition. This made the political environment less volatile and gave the president room to implement his populist agenda.

- ***Mixed policy profile***

The government left little doubt that it would continue to expand state control over key sectors of the economy when it nationalized BP's holding, but it also pursued orthodox macroeconomic policies to enable it to moderate the downturn and shift resources to public housing and income transfer policies.

- ***Other changes in legal environment***

The new 411-article constitution provides for constitutional and Supreme Court justices to be elected by popular vote and to increase the size of the senate from 27 to 36 members – with increased representation for recognized indigenous groups. The new constitution also provides for indigenous areas to administer criminal justice according to their own customs. In separate referendum voters approved a cap on land holdings, limiting the maximum to 5,000 hectares.

**Colombia ▼:** Uncertain future of president cast shadow on improving environment.

- ***Economic performance deteriorated but recovery on horizon***

GDP growth turned negative in the last quarter of 2008 and continued to contract during the first half of 2009, erasing some of the impressive gains achieved during the previous five years. A modest recovery is expected in the second half of 2009, continuing into 2010. During Q2 the local stock market rose 50% against the dollar.

- ***U.S. ties central to external position***

With close economic and political alignment with Washington, Colombia continued to be the odd nation out in South America. When the government announced that Colombia would increase access of U.S. troops to Colombian bases – to fight drug trafficking – President Uribe came under attack from other South American presidents, but he held his ground. Although the Obama administration promised to move ahead on the free trade agreement with its South American ally, the measure remained stuck in Congress. With its more open economy and business friendly environment, both trade and foreign

investment boomed during the growth cycle. The global downturn hit Colombia hard, however, because of its relatively large debt burden and fiscal deficit. In April, Colombia applied for a \$10.5bn contingency loan through the IMF's new Flexible Credit Line. In October, it sold \$1bn in overseas bonds to help cover the growing fiscal deficit.

- ***Third term for Uribe dominated political environment***

With national elections scheduled for May 2010, the likely winner in the presidential contest remained uncertain. Although he had yet to say whether he would run for a third term, the President signed a law that would permit it. If the Constitutional Court rules favorably on the measure, the provision would then be put to a vote in a national referendum.

- ***Policy aimed at soft landing***

In response to falling inflation and to combat the economic slowdown, the central bank lowered the overnight lending rate from 10% to 4.5% between December 2008 and June 2009. Unlike central banks in the region that stopped lowering interest rates as signs of recovery appeared, three consecutive quarters of economic decline prompted the Colombian central bank to lower its benchmark interest rate again in late September. Deterioration in both the external and fiscal accounts limited the government's countercyclical options on the spending side where it had hoped to launch an ambitious infrastructure investment plan.

- ***Human rights violations and wire tapping challenged rule of law***

Critics indicted the president for failure to crack down on human rights violations allegedly perpetrated by military and civilian authorities. Revelations that the intelligence agency (DAS) had spied on opponents of the government further raised doubts about the rule of law in Colombia, but in September as required by Congress, the Obama administration certified that Colombia's record on human rights did not disqualify it from continuing to receive military assistance.

***Ecuador*** ▼ : Elections clarify political environment for populist government.

- ***Economy softened***

Growth, which jumped in 2008, slowed to near zero in 2009. The outlook was for a modest recovery in 2010.

- ***More confrontational external posture***

Embracing full membership in ALBA, Ecuador unambiguously aligned itself with Venezuela, Bolivia and Nicaragua, thereby complicating its relations with the U.S. and Colombia. The government announced that it was withdrawing from the International Center for Settlement of Investment Disputes (ICSID), the court run by the World Bank that was arbitrating Ecuador's \$10bn worth of investment disputes. FDI, which had been in decline under Correa picked up in 2008, but the withdrawal from the ICSID raised new investor concerns. The ongoing dispute with Chevron over its liability for environmental damages flared up in September. In December, Ecuador defaulted – for the second time in 10 years – on \$3.9bn worth of bonds. It then arranged an auction for the defaulted

2012 and 2030 bonds, under which investors could agree to pay the government's 35% buy-back price or ask for a higher price. S&P returned Ecuador's rating to CCC+ after the buyback, and Fitch upgraded the nation's credit rating from restricted default to CCC in September.

- ***Government increased social spending but faced indigenous protests***  
The government increased the minimum wage and invested in income transfer programs and social services. A new mining law prompted widespread protests from indigenous groups claiming sovereignty over territories to be opened exploitation. The law allows industrial and development activities in areas of the country hitherto reserved to indigenous populations.
- ***Election to second term strengthened president's hand***  
President Correa followed up his victory in the 2008 constitutional referendum with re-election to a full four-year term. In the May elections, Correa achieved an unprecedented first round victory with over 50% of the vote, and his supporters won control of Congress. In a country that had eight presidents in 13 years, the stability that Correa achieved was noteworthy. His next challenge was to push ahead with a radical populist agenda, without an established political party to work with in Congress.
- ***Policies to cope with downturn***  
Dollarization and a tight fiscal situation limited the government's countercyclical options. With falling remittances from abroad, Ecuador adopted a new minimum corporate income tax and increased the tax on money sent from abroad from 1% to 2%. In another move intended to remedy the nation's weak financial state, the central bank required all banks to keep at least 45% of deposits within Ecuador. The new requirement was expected to force Ecuadoran banks to repatriate some of the estimated \$1.2 billion held overseas. It was unclear how the law would apply to subsidiaries of foreign banks.
- ***New constitution changes legal environment***  
The new constitution added a fifth branch to Ecuador's government in the form of the *Consejo de Participación Ciudadana y Control Social*, or Council on Citizen Participation and Social Control, which was set up to be an equal partner to the existing executive, legislative, judicial, and electoral branches. According to the government, the purpose of the *Consejo* was to increase citizen involvement in public life and promote transparency in government. Among the provisions relevant to business, the new charter expanded the role of the state in the economy, strengthened the powers of the president (shifting control of monetary and financial policy from the central bank to the president, for example), and placed further restrictions on foreign investment.

**Peru ▼**: Strong environment faced downturn and political challenges.

- ***Growth down but fast recovery likely***  
Peru had the highest annual GDP growth in the region, averaging over 5.0% for the past decade. For 2009 the forecast anticipated a drop to 2.0%, but followed by an increase to 5.0% in 2010. Inflation, which jumped in 2008, was down to the lower rate to which

Peruvians were accustomed. After a big drop in 2008, the stock market surged in the first half of 2009 as commodity prices recovered.

- ***Strong external performance***

With the FTA with the U.S. secured, Peru sought to negotiate agreements with its other important trading partners, most notably China, and it continued to strengthen ties with Brazil. In May, the government announced that it might request Flexible Credit Line assistance from the IMF. In August, S&P reaffirmed the country's positive credit rating citing a good outlook for growth due to prudent fiscal and monetary policies and stable economy. Although FDI was expected to drop, Peru still offered attractive investment opportunities in mining, infrastructure, and industry.

- ***Widespread poverty and regional inequalities weakened social environment***

- ***Protests again undermined political environment***

At the end of 2008, unrest in poor rural provinces forced President Garcia to declare a state of emergency while charges of high level corruption forced him to replace key cabinet members. In June, protests broke out in the Amazon region over government decrees that opened indigenous areas to foreign firms for petroleum and logging exploitation and hydro-electric dam construction. When the confrontation with the police turned violent, the decrees were rescinded, and the president again had to make major changes in his cabinet.

- ***Fiscal and monetary policies addressed economic downturn***

With external and fiscal reserves funneled into stabilization funds and a reduced debt burden, the government implemented a range of stimulus programs, but was not successful in ameliorating the persistent social problems that weaken the business environment.

- ***Legal proceedings against former president***

The Supreme Court upheld a lower court's conviction of former president Alberto Fujimori for human rights violations while in office and sentenced him to 25 years in prison. He was also found guilty of corruption. Other important legal developments included: a change in the mining royalty law so that royalties would henceforth be based on the value of the minerals extracted rather than on the amount of earth moved by a mine; a prohibition against importing used cars; and the outlawing of the sale and use of kerosene, a chemical used in the production of cocaine.

***Venezuela ▼***: Deterioration on all fronts but president strengthened his hold on power.

- ***Growth stalled while inflation soared***

After five years of rapid expansion, the economy slowed in the latter half of 2008 and stopped growing in 2009. The outlook for 2010 was for a weak recovery but no slowdown in inflation was in sight. Inflation was expected to exceed 40% in 2009 in spite of the weak economy, price controls and a fixed exchange rate.

- ***Drop in oil prices threatened external performance***  
 The run-up in oil prices, which gave Venezuela the most favorable terms of trade in the region, allowed President Chavez to pursue an activist foreign policy and finance expansion of the state into all sectors of the economy. While FDI was booming in the rest of Latin America, Venezuela experienced net outflows in spite of the oil boom. The persistent low price of oil in 2009 meant declining export earnings and multiple demands on the reserves of hard currency that had allowed the government to eschew conventional sources of foreign financing. The president continued courting new sources of investment and credit.
- ***Poverty down but threats to personal security a growing concern***
- ***Despite electoral setbacks, Chavez tightened political grip.***  
 Voters followed up their rejection of the December 2007 constitutional referendum by delivering a victory to opposition candidates in key races in the November 2008 state and local elections. Chavez bounced back with a win in the February referendum, which abolished term limits for all elected officials. Furthermore, the president took steps to undercut the power and authority of the winning opposition officeholders and to curtail the independence of the media. Having already consolidated control over Congress, the judiciary, the armed forces and the bureaucracy, there was little organized opposition capable of challenging the president or holding him accountable.
- ***Expanding state control over economy and heterodox macroeconomic policies***  
 The government maintained the bolivar pegged at 2.15 to the dollar where it has been since 2005, in spite of a black market rate of close to 7-to-1. With oil revenues down, the artificially strong bolivar created liquidity problems that made it difficult for foreign companies to be compensated or remit profits. For consumers, the system of price controls to hold down inflation generated shortages of everything from milk to drugs. The government used these shortages to justify the take-over of private food processing firms. It also nationalized oil service contractors, as well as air and sea ports. On the fiscal side, the government raised taxes and cut spending, but having previously abolished the stabilization fund, it could not fund an effective stimulus program.
- ***Government tightened control over education***  
 A new education law promulgated in August will allow more state oversight of the public school system, while making the educational “missions” permanent. The new law removes religious education from the curriculum and reduces the autonomy of universities. The law also takes steps to suppress “student federations,” a large source of opposition to Chavez’s government and prohibits media outlets from publishing news that “causes terror in children, incites hatred, attacks the healthy values of the Venezuelan people, or the mental and physical health of the population.”

## **MERCOSUR REGION**

Efforts to build a South American bloc again overshadowed MERCOSUR. Venezuela's application for full membership in the latter remained on hold as the Brazilian Senate and Paraguayan legislatures refused to hold votes on Venezuela's entry in protest of threats to freedom of the press and other political developments in that country. Venezuela did not comply with other norms of MERCOSUR, which suggested that it would never achieve full membership.

MERCOSUR members did not resort to protectionist measures against each other, as they had in response to past economic downturns. However, the fact that only 11% and 8.6% of Brazil's exports and imports respectively were with MERCOSUR markets indicates the bloc was relatively unimportant economically to its largest member. Uruguay and Paraguay continued to find MERCOSUR unsatisfactory for their small economies. There was a proposal before the U.S. Senate to grant both of these countries preferential access to the U.S. market by adding them to Andean Trade Promotion and Drug Eradication Act. The dispute between Argentina and Uruguay over construction of pulp plants on a shared river went before the International Court of Justice. Brazil took an important step to strengthen relations with its MECOSUR neighbor when it agreed to an arrangement increasing benefits to Paraguay from the joint Itaipu hydroelectric dam.

The South American Union of Nations (UNASUR), founded in 2008, held several summits, but the presidents were unable to come to an agreement on how to respond to Colombia's decision to allow U.S. troops greater access to its military bases. President Uribe chose not to attend one of the meetings, and then suggested that his country might withdraw from UNASUR. This standoff indicated the limits to South American integration. In late

September they did agree to form the Bank of the South with initial capital of \$7bn to finance development projects and facilitate trade among members.

**Argentina ▼** : Environment continued to weaken.

- ***Economy stopped growing***  
GDP, which started to fall in late 2008, contracted in Q2 2009, and forecasts were that it would not return to the robust growth rates of 2003-08. Both falling exports and consumer demand were components of the downturn in growth. The ongoing dispute over the government manipulation of cost of living data meant led most observers to believe that inflation was significantly higher than the rate reported by the National Statistics Institute. The local stock market, which took a big drop at the end of 2008, was up 83% in local currency for the year and 65% in dollars in September. The gap was a function of a managed devaluation to keep the peso competitive.
- ***Adverse external environment***  
Declining trade flows and deteriorating agricultural commodity prices hurt external performance as did a severe drought and the government's ongoing dispute with farmers. In late August, the government took a tentative step to re-enter global capital markets when it announced a swap of short-term debt to relieve pressure building on public finances. A similar move failed last year with the collapse of global financial credit market, and most experts are waiting for additional steps to restore the country's credit worthiness. Likewise observers were skeptical that the government was serious about renewing relations with the IMF of which it had been critical.
- ***Rising crime rates and swine flu outbreak weakened social environment***
- ***Kirchner administration suffered serious setback in midterm legislative elections***  
The government lost its majority in the lower house while barely holding on to control of the Senate in the June elections. Among the losing candidates was the President's husband and predecessor, Nestor Kirchner, who would seem to have been eliminated as her likely successor in 2011. Contributing to the outcome electoral setback were the economic situation, the prolonged struggle with farmers, and splits within the Peronist bloc. The president passed up an opportunity to reach out to the opposition when she made only cosmetic changes in her cabinet following the election.
- ***Uncertain policy agenda***  
Analysts thought that the mid-term election might move the government toward a more orthodox policy stance, but that did not happen.
- ***Measure to curb power of media***  
Before the new, opposition-dominated Congress could be seated in December, Congress approved and the president signed a bill that will divide television and radio broadcast frequencies into thirds between private media outlets, civil society groups, and the

government. The nation's leading media group will be forced to sell off many of its radio stations, TV channels, and part of its cable TV network to comply with new ownership requirements. The law also requires licensing from a new broadcasting commission, and introduces local content requirements of 70% for radio programming and 60% for television. Opposition groups and the Inter-American Press Association criticized the measure, claiming that it gives too much power to the government and noting that the law is motivated by a dispute between Kirchner and the president of Grupo Clarín, Argentina's largest broadcast company. By the measures in Table 12, the Argentine legal environment was one of the most problematic in Latin America.

**Brazil ▼ ▲:** Emerging from crisis as most dynamic environment in region.

- ***Growth took deep drop in first half but turned up in second***  
GDP growth for 2009 was expected to be negative for the year, but it began to recover in the third quarter more quickly and robustly than anticipated. Modest but sustained increases in private and public consumption helped offset the sharp decline in exports and imports. Industrial output turned positive between the second and third quarters. Automobile sales set a record in September. By early September the stock market had registered over a 50% gain in local currency and over 90% in dollars (reflecting recovery of the real-dollar exchange rate) for the year to date.
- ***Strong external performance***  
Brazil made gains on a number of fronts in a difficult external environment. Most notable was Brazil's assertive role as a leading emerging market with BRIC status and a leading member of the G-20. A WTO arbitration panel ruled in favor of Brazil authorizing retaliatory measures against U.S. cotton payments. Strong capital inflows, especially FDI, allowed the country to build up reserves which served as insurance against currency volatility and allowed the central bank to lower interest rates. By September 2009 the real had regained so much of what it lost against the dollar that exporters were concerned that it was overvalued. In September, Moody's joined the other two rating agencies to anoint Brazil with investment grade, citing "the resiliency of the economy" during the crisis as the key. It placed a \$1.2bn 30-year bond issue on the New York market at a spread of only 175 basis points. In late October the government levied a 2% tax on foreign purchases of stocks and bonds in an attempt to slow down appreciation of the real.
- ***Social progress withstood economic downturn.***  
In the face of economic stagnation and increasing unemployment, and in contrast to what happened in past crises, both poverty rates and income inequality continued to fall during 2009 in part due to the *Bolsa Familia* program that provided assistance to poor women who kept their children in school. By 2008 the program reached 25% of the population.
- ***2010 election began to dominate politics***  
President Lula, who cannot run after two terms, named Minister Dilma Rouseff as his favored successor, but electoral success depends on putting together a coalition with the PMDB, Brazil's largest party but one plagued by high-level corruption scandals. Very

early polling put former São Paulo Governor and past presidential candidate Jose Serra in the lead.

- ***Policy initiatives to stimulate recovery and regulate hydrocarbons***

Of some concern was the expectation that Henrique Meirelles would step down as president of the central bank as the law requires of individuals who run for public office. Under his leadership the bank asserted its independence and deftly used changes in benchmark interest rates to strike a balance between fighting inflation and stimulating recovery.

- ***Changes in regulation of oil and gas sectors***

In the wake of major offshore oil discoveries, President Lula submitted a package of bills to Congress in August which would give Petrobras a minimum 30% stake in any future concession while creating a new state-controlled company to manage contracts and exploration of the “pre-salt” deepwater fields. A New Social Fund would capture oil revenues to finance investment in education, infrastructure, poverty reduction, and science and technology. The proposals prompted opposition in Congress, including a filibuster in the lower house to demand that the “urgency” clause attached to the legislation be removed. The president agreed, which will slow the legislative process. A law adopted in March regulating the downstream natural gas activities requires companies transporting or storing natural gas to be formed and managed in Brazil, and foreign entities to form a Brazilian subsidiary to participate in natural gas concessions. The new law allows consumers to bypass local distribution companies and, in some cases, to reach their own agreements to purchase natural gas. A new land tenure law approved in June grants untitled landholders in the Amazon legal tenure of land they occupy.

***Chile ▼ : Government policies limited impact of downturn***

- ***Economy in recession***

2009 GDP growth was expected to be negative for first time in a decade. Recovery began in Q3. Falling domestic demand and lower energy prices reduced inflationary pressures below the central bank’s targeted rate.

- ***Improving copper prices not enough to offset earlier deep decline***

Chile is the world’s leading producer of copper, the country’s leading export. Between July and December 2008, the price of copper fell from \$4.07 a pound to \$1.20. By mid-2009 the price was over \$2.00 and forecast to stay in this range. A strong peso hurt Chilean exports.

- ***Social policies mitigated impact of downturn***

Since returning to democracy, the poverty rate has dropped from 45% to under 14%. Public housing construction and increasing educational opportunities received special attention under the outgoing administration of Michelle Bachelet, and its fiscal stimulus package generated jobs to partially offset unemployment rose.

- ***Tightly contested presidential election***  
September polling gave Piñera of the conservative opposition Alliance a lead over former president Eduardo Frei of the ruling Concertacion, but not enough to avoid a runoff. The late surge in approval ratings for Bachelet helped counter the growing feeling that it was time for the opposition to rule Chile.
- ***Countercyclical policies enacted in response to recession***  
In January the government announced that it would draw on savings accumulated when copper prices were high to fund a \$4.4bn stimulus plan composed of infrastructure spending, support for small and medium businesses, tax cuts and investment in the state copper company. On the monetary side, the Central Bank lowered the reference interest rate to 0.5% (a record low in July) to complement anti-recessionary fiscal measures.
- ***Legal reforms***  
In August the government announced that it would liberalize rules on both equity and fixed-income trading in order to boost trading volumes and make local capital markets more attractive to foreign investors. A new Transparency Law that required the government to open millions of documents for public scrutiny took effect in April 2009. It further obligates public institutions such as the Senate, Chambers of Congress, the Central Bank, the Judiciary, the military, and municipalities to publish information on their day-to-day activities on their Web sites. President Bachelet signed into law a measure that modified Chile's Worker's Code, guaranteeing women equal pay, and Congress continued to purge leftovers from the Pinochet dictatorship.

**Paraguay ▼** : Unsettled politics and economic downturn slowed advances.

- ***Big drop in growth***  
After only two years of strong growth, GDP was expected to contract by 3.0% in 2009 but return to moderate growth in 2010.
- ***Renegotiated Itaipu deal favored Paraguay***  
In addition to giving President Lugo a political victory, the bilateral agreement increased Brazil's yearly payments to Paraguay from \$120mn to \$360mn and allowed it to sell electricity directly to Brazilian customers. FDI and exports, which had been experiencing healthy growth, were hurt by global economic crisis.
- ***Scandal weakened president***  
President Lugo, struggling to establish his government and meet high expectations generated during his victorious campaign, had to cope with Colorado supporters entrenched in the legislature, judiciary and bureaucracy, as well as with squabbles within the ruling Patriotic Alliance for Change. He suffered a further setback when it was revealed that he fathered children while still a Roman Catholic bishop.

- ***Policy commitments unfulfilled***  
The new administration made no progress in enacting land reform, reducing poverty or fighting corruption. The president had to replace six ministers after less than a year in office.
- ***Supreme Court reforms?***  
President Lugo proposed reforms to make the Supreme Court less partisan. The opposition countered that Lugo was attempting to breach the separation between government branches in order to stack the court with friendly jurists.

**Uruguay ▼** : Presidential election took center stage.

- ***Downturn was moderate***  
GDP growth, which averaged over 8.0% between 2004 and 2008, dropped but was expected to stay positive in 2009 and recover to 3.5% in 2010. Inflation, which jumped to 9.2% in 2008, also fell.
- ***Positive external performance***  
The government took advantage of increasing FDI and exports to reduce its heavy debt burden, which helped cushion the impact of the global financial meltdown on Uruguay. Diversification of international trade reduced exposure to the volatile Argentine economy, although it benefited from the inflow flight capital from its larger neighbor. In September with successful placement of an international bond issue ratified investor confidence the country.
- ***October 2009 election to select new president and determine control of legislature***  
The two leading candidates, former guerrilla Jose Mujica of the ruling Frente and former president Luis Alberto Lacalle of the opposition Blanco party, were running as moderates, which suggested that there would be no major policy shifts.
- ***Strengthened bank regulations and conservative policies protected economy***
- ***Minor changes to strong legal environment***  
An initiative to redress past human rights abuses would repeal the amnesty law that shielded military personnel from prosecution for violations committed during the dictatorship if approved in a public referendum to be held concurrently with the October 25<sup>th</sup> election. A collective bargaining bill under consideration would shorten labor lawsuits and force late-paying companies to pay a 10 percent penalty.

### ***III. OUTLOOK***

#### **OUTLOOK FOR THE REGION**

Initial speculation regarding the impact of the global financial meltdown and economic slowdown that began in 2008 was that Latin America would escape major damage because it was effectively “decoupled” from the principal global trouble spots. When it became clear by the end of 2008 that Latin America would not escape, the concern was that the region was in for a deep downturn of its own followed by a slow recovery of the type provoked by previous external shocks. By mid-2009, however, many of the region’s economies were recovering more rapidly than in past crises, presumably due to long and short-run changes in the external environment but also because of stronger domestic environments. In this conclusion we explore the outlook for the region and its 18 largest economies as 2009 draws to a close. For each country, we indicate whether the business environment is likely to get better (▲), get worse (▼), or stay the same (=) through 2010. A question mark (?) indicates the outlook is uncertain. We further identify key variables to monitor in the coming 12-15 months.

#### ***External Environment***

- ***Global▲***

In September, the OECD reported that the global recovery had started earlier than expected. It predicted weak 2010 growth in the G-7, but a more dynamic performance in emerging economies less exposed to the financial downturn. Because of China’s growing importance in the global economy and increasing trade and investment ties with Latin America, its rapid recovery was a positive development. Of concern was whether China’s surge in commodity imports had run its course or if the recent trends were an indication of a long-term increase that will undergird higher commodity prices and increased trade flows in the future. And even more important, especially to Mexico and to Central America and the Caribbean, was the timing and strength of the U.S. recovery, which was beginning to gain a foothold in late 2009. For Latin America as a whole exports to the U.S. were five times those to China in 2008.

***Keys: Global recovery led by U.S. and China; WTO negotiations***

- **Regional ▲**

Pending regional issues include the political standoff in Honduras; coordinated action to reduce drug trafficking and violence, especially but not only on the U.S.-Mexican border; and the definition of trade policy under the Obama administration. Venezuela and the ALBA bloc seem certain to continue pursuing a path antagonistic to the U.S. Also likely are changes within Cuba and with respect to U.S. policy toward Cuba, both of which have the potential to substantially alter the island nation's environment.

**Keys: Resolution of Honduran crisis; U.S. engagement with Latin America; ALBA nations; Cuban transition**

### ***Domestic Environment***

- **Economic and Financial Performance ▲**

The region and each of the 18 economies were expected to grow in 2010 and continue growing over the next five years, albeit below the rate achieved in 2003-2008 (Figure 4, Table 1). In mid-October, the RGE Monitor revised its 2010 regional forecast upward to 3.3% based largely on the improving performance of Brazil. On the financial side, trade and FDI should begin to recover, although remittances will be slower to recover. Given their quick recovery to virtually pre-downturn levels, regional stock markets are due for corrections as are some local currencies. Any signs of weakness in the economic recovery would negatively affect investor confidence and financial markets.

**Keys: Commodity prices; global liquidity**

- **Social Environment =**

It is fortunate that the impact of the downturn was less severe than in past recessions since recoveries of employment and family incomes always lag behind the resumption of economic growth. This means governments will have to continue spending on social assistance and job creation programs as long as they have the fiscal resources. They will also have to devote resources to the ongoing fight against drug-related violence which surged alarmingly in 2009.

**Keys: Availability of fiscal resources to mitigate unemployment and poverty; concrete progress in reducing threats to social and personal security**

- **Political Environment =**

National elections always have the potential of re-shaping the Latin American political environment, and there are seven scheduled through the end of 2010. In the 2004-05 electoral cycle, candidates of the left predominated in nine of the 12 contests, although, once in office, the winners fell into two categories with respect to the policies that they pursued – the populist left and pragmatic left. This time around, with the exception of Bolivia, there are currently no radical leftist candidates with a serious chance of winning. In two countries with center-left governments – Chile and Uruguay – the center-right candidates stand a good chance of winning. Given this lineup no significant political shifts are likely, although uncertainty surrounds the Honduran situation.

**Keys: 2009 elections in Uruguay, Honduras, Chile and Bolivia; 2010 elections in Costa Rica, Colombia and Brazil; resolution of Honduran crisis**

- ***Policy Environment =***  
 The divergence in policy environments is not going to disappear. Most countries are not expected to deviate from the market-oriented policy paradigm of the Washington consensus as revised over the years. However, governments in the radical populist camp will continue to deepen the role of the state in the economy. Argentina with a foot in both camps may opt for one paradigm or the other. As the recovery gathers steam, governments will have to shift from loose to restrictive monetary and fiscal policies to head off inflation and reign in deficits.  
***Keys: Reappearance of inflationary pressures; deepening state control of energy and mineral sectors***
- ***Legal Environment =***  
 The growing divide within Latin America holds true for the outlook for rule of law measures also. On the one hand, there will be incremental advances in the representative democracies in terms of stability of legal systems, improvement in judicial education and professionalism, and use of ADR (Alternative Dispute Resolution). On the other hand, the radical populist regimes will move backwards in most rule of law measures - especially politicization of judiciaries and political interference in process. Once again, the changes will be incremental since these legal environments are already quite problematic. One particularly important development to monitor will be new regulations governing exploitation of energy and mineral reserves since this is a sensitive issue throughout Latin America.  
***Keys: Incremental reforms; regulations for mining and energy sectors***

## **COUNTRY OUTLOOKS**

This section divides the 18 countries into three categories according to the overall strength of their business environments in 2009 – attractive, problematic or mixed -- then assesses the outlook for each through 2010. As the year wound down, the outlook for next year for all 18 countries was more encouraging than earlier in the year, but it was better for some than others.

### ***Attractive Environments (8)***

Although the environments in all eight of the countries in the attractive category deteriorated over the past year, their environments were stronger than in the remaining 10 countries and likewise their prospects for 2010 more promising. Recognizing that there are

differences among them, the eight countries are relatively attractive because they have: 1) records of sustaining growth while controlling inflation; 2) positive external profiles; 3) stable social environments with effective programs targeted at strengthening them; 4) stable political and government institutions; 5) predictable, market-friendly economic policies; and 6) legal environments with rule of law and low corruption.

- **Mexico ▲**

Given the setbacks of the past year, it would be easy to overlook the progress that Mexico has made over the past two decades in opening its economy and building a competitive, stable political system. On the economic front, the question is how soon will Mexico recover from its deep downturn? That depends in important part on the speed and strength of the U.S. recovery but also on the ability of the divided executive and legislative branches to maintain a steady course on macroeconomic policy and advance a reform agenda. An early test will be how Congress deals with President Calderon's proposal to increase taxes in order to offset declining oil revenues and thereby maintaining the coveted investment grade rating. The government must also make some headway in containing drug-related violence and corruption that have become increasingly endanger the business environment. Finally, the tenor and substance of U.S. policy toward Mexico will be important.

**Keys: U.S. recovery; executive-legislative relations; fiscal reforms; progress in war of drug-related violence**

- **Dominican Republic ▲**

Recovery is in sight. How robust it will be depends heavily on what happens in the U.S. However, a return to the high growth that made the environment so dynamic in the 1990s and again during the middle part of this decade seems to be at least a year off.

**Keys: U.S. recovery; constitutional reform to allow immediate re-election of the president**

- **Costa Rica ▲**

As with the other DR-CAFTA countries, the pace of Costa Rica's recovery depends on the U.S. Regardless of which leading candidate succeeds Oscar Arias, there should be no major policy shifts, although Otton Solis, who is the underdog in the race, would likely endorse a more interventionist role for the state.

**Key: U.S. recovery; February election**

- **Panama ▲**

The outlook is promising. The economy seems headed for a quick turnaround, and the new business friendly government with a legislative majority has stabilized the political environment.

**Key: Recovery of global trade flows; reform of bank laws and U.S. ratification of FTA**

- **Peru ▲**  
 Because Peru is the world's largest silver producer and ranks among the top five in gold, copper and zinc, the recovery of global mineral prices throughout 2009 was favorable for a quick recovery, even if growth did not return to the impressive rates reached before the downturn. However, unless the government is able to make meaningful headway in spreading the benefits of the recovery to the highland Indian communities and crafting a compromise acceptable to indigenous communities for exploiting mineral and energy resources in the Amazon, the political environment may become increasingly favorable for a radical populist candidate to contest the 2011 election as happened in 2006.  
*Keys: Commodity prices; indigenous unrest in highlands and Amazonia*
- **Brazil ▲**  
 In 2010 Brazilians elect a new president. The country's business environment became stronger – emerging as the most dynamic in the region – during the seven years of President Lula. Not only did the former labor leader adhere to the macroeconomic policy agenda of his predecessor, but he institutionalized strong social welfare programs and projected Brazil on to the world stage. In late September his approval rating stood at 70%. Major offshore oil discoveries added to Brazil's luster, as did the speed with which the economy came out of the crisis. Lula's leading role in the G-20, and the awarding of the 2016 Olympics to Rio de Janeiro further enhanced Brazil's emergence as one of the top three emerging markets (along with China and India). Regardless of the outcome of the November election, the environment will remain attractive. To consolidate the gains made since 1995, the new administration must push to reform the tax and labor laws; reduce the bureaucratic obstacles to doing business in Brazil (it still takes 152 days to start a business there compared to only 27 in Chile, Table 13); work toward political reforms that would reign in the corruption and scandal; and make demonstrable progress in combating drug-related violence.  
*Keys: November 2010 election; efforts to reduce organized urban violence*
- **Chile ▲**  
 With opposition candidate Sebastian Piñera leading in the polls, it appears that the center-left coalition that has held the presidency since the return to democracy in 1990 could be headed for defeat, although the contest is certain to go to a runoff in January. Given the strong centrist consensus that shapes Chilean politics, a victory of the right would not trigger major policies shifts, either on the economic or social fronts. The recession has been deeper and longer than expected, but the phalanx of counter-cyclical measure should help produce a recovery in 2010. Although the growth rate has converged toward the regional average over the last decade, strengthening of the social, political and legal environments maintained Chile's status as a very attractive business environment.  
*Keys: December 2009 election; copper prices*
- **Uruguay ▲**  
 Under the presidency of Tabare Vazquez, Uruguay with a small, open and highly dollarized economy has become one of the more attractive business environments in South America. Regardless of who wins the presidential election – both major candidates were campaigning in the center -- the transition to the new administration should be

smooth with policies of the popular outgoing administration remaining in place. Because the race is close it will likely go to a run-off with minor parties tipping the balance.

**Key: October 2009 election**

### ***Problematic Environments (5)***

Because of its unresolved political crisis, the Honduran business environment was downgraded from the mixed to the problematic category in 2009. The remaining four countries have the least business-friendly environments in Latin America because they opted for radical populist politics and policies. This translates into political systems with power concentrated in the hands of president and weak institutions and heterodox economic policies. Rule of law is weak, especially regarding property rights and the protection of foreign investment, and corruption high. With the exception of Nicaragua, the countries in this category are energy exporters with rent seeking economies subject to the volatility of global markets. Doing business is risky but the rewards can be high.

- ***Honduras ?***

Failure to reach an agreement along the lines of the Arias accord (which would allow President Zelaya to return to office with limited powers and the promise to give up the presidency in January) mean that great uncertainty continues to grip the Honduran environment. This extends to the outcome and legitimacy of the November 29 election in which the two major candidates are Elvin Santos of the ruling Liberal Party and Porfirio Lobo of the conservative National Party. Before the coup, Santos led in the polls; after the coup, Lobo took the lead, although the number of undecided voters surged. In the meantime, the standoff resulted in the escalating cutoff of major aid and trade flows, inflicting considerable damage on the economy and the Honduran people.

**Keys: Agreement on returning Zelaya to office; November elections; new government**

- ***Nicaragua ?***

The unresolved conflict in neighboring Honduras has the potential to destabilize Nicaragua's polarized political environment as does President Ortega's drive to secure the reforms necessary to seek immediate re-election. In the meantime, the country's economic fate remains closely tied to the U.S. in spite of Ortega's alignment with Venezuela.

**Keys: U.S. recovery; maneuvering to re-elect Ortega**

- ***Venezuela ?***

By conventional criteria, Venezuela seems headed for a prolonged crisis that would threaten survival of any government. Growth is off and inflation out of control. There are shortages in basic consumer goods, and violent crime is on the rise. Yet it would be a mistake to write off President Chavez. Since coming to power in 1999, he has built a dedicated following among the lower classes who have repeatedly come to his rescue at key moments in his campaign to remake Venezuela at home and abroad. His current term lasts until 2013 with the possibility of unlimited re-election thereafter and there are no credible alternatives. And even though the business environment is in many respects the least attractive in Latin America, the fact that the country sits on one of the largest oil reserves in the world means that foreign companies are willing to stay in the game on President Chavez's terms. How long this lasts depended heavily on oil prices.

***Keys: Oil prices; November 2010 legislative elections***

- ***Ecuador ?***

Ecuador finds itself in a precarious position. Although the political situation is more stable, the government has yet to define its policy agenda and its external position is precarious. Cut off from international credit markets, the economic outlook rests heavily on the price of oil. Under such conditions, foreign investment in the oil industry would seem crucial, but the Correa administration seems likely to tighten rather than liberalize access for foreign companies.

***Keys: Oil prices; Correa's policy agenda***

- ***Bolivia ▲***

The business environment in Bolivia is more stable but still problematic because of the populist policy agenda. Morales is headed for a new term. The only question is whether he can wrest control of the Senate from a divided opposition. Investors await the government's rules governing private participation in lithium exploitation. Lithium batteries will power the next generation of electric cars, and Bolivia has the world's largest deposits.

***Key: December elections; resource policies***

### ***Mixed Environments (5)***

The business environments of the five countries in this category come up short either because they are disadvantaged in the global economy and/or because of challenging social environments, uncertain politics, inconsistent policies, and weak rule of law. Argentina was best endowed to benefit from the boom in global commodity prices, but politics and policies hindered its performance. Colombia and Paraguay, also commodity exporters, were held back by armed civil conflict in the first case and dysfunctional politics in the second. El Salvador embraced the

prescribed policies but was burdened with unfavorable terms of trade. In both El Salvador and Guatemala armed gangs presented a serious social challenge. This mix of pluses and minuses shapes the outlook for these countries.

- ***El Salvador ▲***

The outlook for El Salvador is for a modest uptick as exports to, and remittances from, the U.S. recover. The stability of the political situation and moderate orientation of the new administration are positive features of the environment while gang-related violence constitutes a negative dimension.

***Keys: U.S. recovery; executive-legislative relations***

- ***Guatemala ▲***

Because of weak institutions and persistent social maladies, Guatemala's recovery and longer term outlook are guarded.

***Key: U.S. recovery;***

- ***Colombia ▲***

With a third term for Uribe yet to be decided, the leading candidates to replace him are former defense minister Juan Manuel Santos to the right of center and former Medellin mayor Sergio Fajardo to the left of center. Should the popular Uribe gain the right to run for reelection and should he make the decision to enter the race, he would be the favorite. Although the Colombia president aggressively defended his independent stance in South America, he must seek to normalize relations with Colombia's immediate neighbors.

***Keys: May election; relations with Venezuela and Ecuador; FTA with U.S.***

- ***Argentina ▲***

Recovery from the 2008-09 downturn seems unlikely to be as dynamic as recovery from the 2001-2002 meltdown. This time around – although the external environment has become increasingly favorable for Argentina's commodity exports – there is too much uncertainty about the government's policy agenda and its ability to work with a legislature, which will be controlled by the opposition. Because of a deteriorating fiscal situation and difficult debt servicing profile, Argentina needs to regain access to international capital markets. This depends not only on the recovery of global liquidity but also on the government's ability to rebuild Argentina's credit worthiness. The latter will be contingent on producing believable measures of inflation, reaching agreement with private bondholders, improving relations with the IMF, and pursuing credible and consistent macroeconomic policies.

***Keys: Executive-legislative relations; access to international credit markets; relations with rural sector***

- ***Paraguay ▲***

President Lugo faced a difficult first year in office. The high point was reaching agreement with Brazil to increase Paraguay's revenues from the Itaipu hydroelectric installation. He survived paternity scandals, but must still consolidate his leadership and

make progress in bringing Paraguay into the mainstream of South American economics and politics at a time when the country is struggling to recover from the downturn.

***Key: Executive-legislative relations***

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**Table 1**  
**GDP GROWTH, 1999-2014**  
(Percentage Change)

|                                    | 1999 | 2000 | 2001 | 2002  | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Average<br>1999-2008 | 2009 <sup>1</sup> | 2010 <sup>2</sup> | 2014 <sup>3</sup> |
|------------------------------------|------|------|------|-------|------|------|------|------|------|------|----------------------|-------------------|-------------------|-------------------|
| <b>NAFTA REGION</b>                |      |      |      |       |      |      |      |      |      |      |                      |                   |                   |                   |
| Mexico                             | 3.8  | 6.6  | 0.0  | 0.8   | 1.4  | 4.0  | 3.2  | 4.8  | 3.2  | 1.3  | 2.9                  | -7.0              | 2.5               | 4.9               |
| <b>DR-CAFTA COUNTRIES</b>          |      |      |      |       |      |      |      |      |      |      |                      |                   |                   |                   |
| Dominican Republic                 | 6.1  | 5.7  | 1.8  | 5.8   | -0.4 | 2.7  | 9.2  | 10.7 | 7.5  | 5.3  | 5.4                  | 1.0               | 2.0               | 7.0               |
| Costa Rica                         | 8.2  | 1.8  | 1.1  | 2.9   | 6.4  | 4.3  | 5.9  | 8.8  | 7.3  | 2.6  | 4.9                  | -3.0              | 3.0               | 5.2               |
| El Salvador                        | 3.4  | 2.2  | 1.7  | 2.3   | 2.3  | 1.9  | 3.1  | 4.2  | 4.7  | 2.5  | 2.8                  | -2.0              | 2.5               | 4.5               |
| Guatemala                          | 3.8  | 3.6  | 2.3  | 3.9   | 2.5  | 3.2  | 3.3  | 5.3  | 5.7  | 4.0  | 3.8                  | -1.0              | 2.5               | 4.0               |
| Honduras                           | -1.9 | 5.7  | 2.7  | 3.8   | 4.5  | 6.2  | 6.1  | 6.6  | 6.3  | 4.0  | 4.4                  | -2.5              | 2.5               | 3.0               |
| Nicaragua                          | 7.0  | 4.1  | 3.0  | 0.8   | 2.5  | 5.3  | 4.3  | 3.9  | 3.2  | 3.2  | 3.7                  | -1.0              | 2.5               | 4.0               |
| Panama                             | 4.0  | 2.7  | 0.6  | 2.2   | 4.2  | 7.5  | 7.2  | 8.5  | 11.5 | 9.2  | 5.8                  | 2.5               | 5.0               | 6.5               |
| <b>ANDEAN SOUTH AMERICA</b>        |      |      |      |       |      |      |      |      |      |      |                      |                   |                   |                   |
| Bolivia                            | 0.4  | 2.5  | 1.7  | 2.5   | 2.7  | 4.2  | 4.4  | 4.8  | 4.6  | 6.1  | 3.4                  | 2.5               | 3.5               | 3.6               |
| Colombia                           | -4.2 | 2.9  | 2.2  | 2.5   | 4.6  | 4.7  | 5.7  | 6.8  | 7.7  | 2.6  | 3.6                  | 0.6               | 3.5               | 4.5               |
| Ecuador                            | -6.3 | 2.8  | 5.3  | 4.2   | 3.6  | 8.0  | 6.0  | 3.9  | 2.5  | 6.5  | 3.7                  | 1.0               | 2.5               | 3.0               |
| Peru                               | 0.9  | 3.0  | 0.2  | 5.0   | 4.0  | 5.1  | 6.7  | 7.6  | 8.9  | 9.8  | 5.1                  | 2.0               | 5.0               | 5.5               |
| Venezuela                          | -6.0 | 3.7  | 3.4  | -8.9  | -7.8 | 18.3 | 10.3 | 8.4  | 8.4  | 4.8  | 3.5                  | 0.3               | 3.5               | 0.5               |
| <b>MERCOSUR REGION</b>             |      |      |      |       |      |      |      |      |      |      |                      |                   |                   |                   |
| Argentina                          | -3.4 | -0.8 | -4.4 | -10.9 | 8.8  | 9.0  | 9.2  | 8.5  | 8.7  | 7.0  | 3.2                  | 1.5               | 3.0               | 3.0               |
| Brazil                             | 0.8  | 4.3  | 1.3  | 2.7   | 1.1  | 5.7  | 3.2  | 4.0  | 5.7  | 5.1  | 3.4                  | -0.8              | 3.5               | 4.5               |
| Chile                              | -0.8 | 4.5  | 3.4  | 2.2   | 3.9  | 6.0  | 5.6  | 4.3  | 5.1  | 3.2  | 3.7                  | -1.0              | 3.5               | 5.0               |
| Paraguay                           | -1.5 | -3.3 | 2.1  | 0.0   | 3.8  | 4.1  | 2.9  | 4.3  | 6.8  | 5.8  | 2.5                  | -3.0              | 3.0               | 5.0               |
| Uruguay                            | -2.8 | -1.4 | -3.4 | -11.0 | 2.2  | 11.8 | 6.6  | 7.0  | 7.4  | 8.9  | 2.5                  | 1.0               | 3.5               | 3.8               |
| <b>LATIN AMERICA AND CARIBBEAN</b> |      |      |      |       |      |      |      |      |      |      |                      |                   |                   |                   |
|                                    | 0.2  | 4.0  | 0.4  | -0.4  | 2.2  | 6.1  | 4.9  | 5.8  | 5.8  | 4.2  | 3.3                  | -1.9              | 3.1               | 4.3               |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Preliminary estimates for Year 2009 from ECLAC

<sup>2</sup> Projections for Year 2010 from ECLAC

<sup>3</sup> Projections for Year 2014 from IMF

**Table 2**  
**ANNUAL INFLATION, 1999-2009**  
(Percentage variation in CPI, December through December)

|                                    | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 <sup>1</sup> |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|-------------------|
| <b>NAFTA REGION</b>                |      |      |      |      |      |      |      |      |      |      |                   |
| Mexico                             | 12.3 | 9.0  | 4.4  | 5.7  | 4.0  | 5.2  | 3.3  | 4.1  | 3.8  | 6.5  | 3.5               |
| <b>DR-CAFTA COUNTRIES</b>          |      |      |      |      |      |      |      |      |      |      |                   |
| Dominican Republic                 | 5.1  | 9.0  | 4.4  | 10.5 | 42.7 | 28.7 | 7.4  | 5.0  | 8.9  | 4.5  | 6.0               |
| Costa Rica                         | 10.1 | 10.2 | 11.0 | 9.7  | 9.9  | 13.1 | 14.1 | 9.4  | 10.8 | 13.9 | 8.0               |
| El Salvador                        | -1.0 | 4.3  | 1.4  | 2.8  | 2.5  | 5.4  | 4.3  | 4.9  | 4.9  | 5.5  | 2.5               |
| Guatemala                          | 4.9  | 5.1  | 8.9  | 6.3  | 5.9  | 9.2  | 8.6  | 5.8  | 8.7  | 9.4  | 5.5               |
| Honduras                           | 10.9 | 10.1 | 8.8  | 8.1  | 6.8  | 9.2  | 7.7  | 5.3  | 8.9  | 10.8 | 9.4               |
| Nicaragua                          | 7.2  | 9.9  | 4.7  | 4.0  | 6.6  | 8.9  | 9.6  | 10.2 | 16.2 | 12.7 | 7.0               |
| Panama                             | 1.5  | 0.7  | 0.0  | 1.5  | 1.5  | 3.5  | 3.4  | 2.2  | 6.4  | 6.8  | 3.2               |
| <b>ANDEAN SOUTH AMERICA</b>        |      |      |      |      |      |      |      |      |      |      |                   |
| Bolivia                            | --   | 3.4  | 0.9  | 2.4  | 3.9  | 4.6  | 4.9  | 4.9  | 11.7 | 11.8 | 6.0               |
| Colombia                           | 9.2  | 8.8  | 7.6  | 7.0  | 6.5  | 5.5  | 4.9  | 4.5  | 5.7  | 7.7  | 4.6               |
| Ecuador                            | 60.7 | 91.0 | 22.4 | 9.3  | 6.1  | 1.9  | 3.1  | 2.9  | 3.3  | 8.8  | 2.0               |
| Peru                               | 3.7  | 3.7  | -0.1 | 1.5  | 2.5  | 3.5  | 1.5  | 1.1  | 3.9  | 6.6  | 2.5               |
| Venezuela                          | 20.0 | 13.4 | 12.3 | 31.2 | 27.1 | 19.2 | 14.4 | 17.0 | 22.5 | 31.9 | 42.0              |
| <b>MERCOSUR REGION</b>             |      |      |      |      |      |      |      |      |      |      |                   |
| Argentina                          | -1.8 | -0.7 | -1.5 | 41.0 | 3.7  | 6.1  | 12.3 | 9.8  | 8.5  | 7.2  | 7.2               |
| Brazil                             | 8.9  | 6.0  | 7.7  | 12.5 | 9.3  | 7.6  | 5.7  | 3.0  | 4.5  | 5.9  | 4.2               |
| Chile                              | 2.3  | 4.5  | 2.6  | 2.8  | 1.1  | 2.4  | 3.7  | 2.6  | 7.8  | 7.1  | 2.2               |
| Paraguay                           | 5.4  | 8.6  | 8.4  | 14.6 | 9.3  | 2.8  | 9.9  | 12.5 | 6.0  | 7.5  | 5.5               |
| Uruguay                            | 4.2  | 5.1  | 3.6  | 25.9 | 10.2 | 7.6  | 4.9  | 6.4  | 8.5  | 9.2  | 6.4               |
| <b>LATIN AMERICA AND CARIBBEAN</b> |      |      |      |      |      |      |      |      |      |      |                   |
|                                    | 9.7  | 9.0  | 6.1  | 12.2 | 8.5  | 7.4  | 6.1  | 5.0  | 6.4  | 8.4  | 6.2 <sup>2</sup>  |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Preliminary estimates for Year 2009 from IMF Economic Outlook 2009

<sup>2</sup> Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago

**Table 3**  
**TERMS OF TRADE, 1999-2008**  
(2000=100)

|                                    | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008 <sup>1</sup> |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| <b>NAFTA REGION</b>                |       |       |       |       |       |       |       |       |       |                   |
| Mexico                             | 99.3  | 100.0 | 97.4  | 97.9  | 98.8  | 101.6 | 103.6 | 104.1 | 105.1 | 105.9             |
| <b>DR-CAFTA COUNTRIES</b>          |       |       |       |       |       |       |       |       |       |                   |
| Dominican Republic                 | 105.7 | 100.0 | 100.9 | 101.5 | 97.9  | 96.7  | 95.8  | 94.9  | 98.0  | 93.6              |
| Costa Rica                         | 106.9 | 100.0 | 100.9 | 101.5 | 97.9  | 96.7  | 95.8  | 94.9  | 84.9  | 81.7              |
| El Salvador                        | 99.6  | 100.0 | 102.5 | 101.6 | 97.7  | 96.8  | 96.8  | 95.5  | 94.6  | 91.0              |
| Guatemala                          | 101.9 | 100.0 | 96.7  | 95.8  | 93.0  | 92.1  | 91.3  | 89.6  | 87.9  | 85.6              |
| Honduras                           | 107.5 | 100.0 | 94.8  | 92.0  | 88.0  | 87.2  | 87.2  | 83.2  | 81.6  | 80.9              |
| Nicaragua                          | 95.3  | 100.0 | 88.4  | 87.0  | 84.1  | 82.5  | 81.4  | 79.4  | 78.6  | 75.2              |
| Panama                             | 104.6 | 100.0 | 102.7 | 101.6 | 97.2  | 95.3  | 93.5  | 90.8  | 90.0  | 85.9              |
| <b>ANDEAN SOUTH AMERICA</b>        |       |       |       |       |       |       |       |       |       |                   |
| Bolivia                            | 97.1  | 100.0 | 95.8  | 96.2  | 98.5  | 104.1 | 111.8 | 134.6 | 139.5 | 144.0             |
| Colombia                           | 87.2  | 100.0 | 94.2  | 92.5  | 95.2  | 102.3 | 111.0 | 115.2 | 124.4 | 138.1             |
| Ecuador                            | 89.1  | 100.0 | 84.6  | 86.8  | 89.8  | 91.5  | 102.4 | 109.9 | 113.0 | 124.0             |
| Peru                               | 100.8 | 100.0 | 95.6  | 98.4  | 102.2 | 111.3 | 119.4 | 151.1 | 156.6 | 136.9             |
| Venezuela                          | 66.1  | 100.0 | 82.2  | 87.6  | 98.7  | 118.1 | 154.4 | 184.4 | 202.1 | 249.5             |
| <b>MERCOUSUR REGION</b>            |       |       |       |       |       |       |       |       |       |                   |
| Argentina                          | 90.9  | 100.0 | 99.3  | 98.7  | 107.2 | 109.2 | 106.9 | 113.0 | 117.1 | 132.7             |
| Brazil                             | 97.0  | 100.0 | 99.6  | 98.4  | 97.0  | 97.9  | 99.2  | 103.8 | 106.7 | 110.4             |
| Chile                              | 94.2  | 100.0 | 93.3  | 97.2  | 102.8 | 124.9 | 139.8 | 183.7 | 190.7 | 164.9             |
| Paraguay                           | 101.7 | 100.0 | 100.2 | 96.7  | 101.4 | 104.3 | 97.4  | 95.5  | 100.1 | 107.3             |
| Uruguay                            | 95.9  | 100.0 | 104.0 | 102.6 | 103.5 | 99.9  | 90.7  | 88.7  | 90.4  | 92.3              |
| <b>LATIN AMERICA AND CARIBBEAN</b> |       |       |       |       |       |       |       |       |       |                   |
|                                    | 94.5  | 100.0 | 96.3  | 96.6  | 98.6  | 103.6 | 108.7 | 115.1 | 118.0 | 121.4             |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Preliminary estimates for Year 2008 from ECLAC

**Table 4**  
**NET FOREIGN DIRECT INVESTMENT, 1999-2008**

(Millions of US dollars)

|                                    | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008 <sup>1</sup> |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| <b>NAFTA REGION</b>                |        |        |        |        |        |        |        |        |        |                   |
| Mexico                             | 13,631 | 17,789 | 23,045 | 22,158 | 15,183 | 19,216 | 15,325 | 13,558 | 19,022 | 21,264            |
| <b>DR-CAFTA COUNTRIES</b>          |        |        |        |        |        |        |        |        |        |                   |
| Dominican Republic                 | 1,338  | 953    | 1,079  | 917    | 613    | 909    | 1,123  | 1,528  | 1,579  | 2,885             |
| Costa Rica                         | 614    | 400    | 451    | 625    | 548    | 733    | 904    | 1,371  | 1,634  | 2,010             |
| El Salvador                        | 162    | 178    | 289    | 496    | 123    | 366    | 398    | 268    | 1,408  | 719               |
| Guatemala                          | 155    | 230    | 488    | 183    | 218    | 255    | 470    | 552    | 720    | 822               |
| Honduras                           | 237    | 375    | 301    | 269    | 391    | 553    | 599    | 669    | 928    | 875               |
| Nicaragua                          | 337    | 267    | 150    | 204    | 201    | 250    | 241    | 287    | 382    | 626               |
| Panama                             | 864    | 624    | 467    | 99     | 818    | 1,019  | 918    | 2,498  | 1,907  | 2,402             |
| <b>ANDEAN SOUTH AMERICA</b>        |        |        |        |        |        |        |        |        |        |                   |
| Bolivia                            | 1,008  | 734    | 703    | 674    | 195    | 63     | -242   | 278    | 362    | 508               |
| Colombia                           | 1,392  | 2,111  | 2,526  | 1,277  | 783    | 2,873  | 5,590  | 5,558  | 8,136  | 8,406             |
| Ecuador                            | 648    | 720    | 1,330  | 1,275  | 872    | 837    | 493    | 271    | 193    | 974               |
| Peru                               | 1,812  | 810    | 1,070  | 2,156  | 1,275  | 1,599  | 2,579  | 3,467  | 5,425  | 4,079             |
| Venezuela                          | 2,018  | 4,180  | 3,479  | -244   | 722    | 864    | 1,422  | -2,666 | -1,591 | -1,041            |
| <b>MERCOSUR REGION</b>             |        |        |        |        |        |        |        |        |        |                   |
| Argentina                          | 22,257 | 9,517  | 2,005  | 2,776  | 878    | 3,449  | 3,954  | 3,099  | 4,969  | 7,502             |
| Brazil                             | 26,888 | 30,498 | 24,715 | 14,108 | 9,894  | 8,339  | 12,550 | -9,380 | 27,518 | 24,601            |
| Chile                              | 6,203  | 873    | 2,590  | 2,207  | 2,701  | 5,610  | 4,801  | 4,556  | 9,568  | 9,896             |
| Paraguay                           | 89     | 98     | 78     | 12     | 22     | 32     | 47     | 167    | 178    | 311               |
| Uruguay                            | 238    | 274    | 291    | 180    | 401    | 315    | 811    | 1,495  | 1,139  | 2,049             |
| <b>LATIN AMERICA AND CARIBBEAN</b> |        |        |        |        |        |        |        |        |        |                   |
|                                    | 79,923 | 72,190 | 66,914 | 50,996 | 37,806 | 49,692 | 54,563 | 30,735 | 86,235 | 92,155            |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Preliminary estimates for Year 2008 from ECLAC

**Table 5**  
**EXPORTS, IMPORTS<sup>3</sup> AND CURRENT ACCOUNT BALANCE, 2005-2008**  
(Millions of US dollars)

|   | 2005    |         |           | 2006    |         |           | 2007    |         |           | 2008 <sup>1</sup> |           |           |
|---|---------|---------|-----------|---------|---------|-----------|---------|---------|-----------|-------------------|-----------|-----------|
|   | Exports | Imports | C/Account | Exports | Imports | C/Account | Exports | Imports | C/Account | Exports           | Imports   | C/Account |
| <b>NAFTA REGION</b>                             |         |         |           |         |         |           |         |         |           |                   |           |           |
| Mexico  | 230,299 | 242,599 | -4,665    | 266,146 | 278,015 | -4,375    | 289,364 | 305,743 | -8,331    | 309,383           | 333,722   | -15,725   |
| <b>DR-CAFTA COUNTRIES</b>                       |         |         |           |         |         |           |         |         |           |                   |           |           |
| Dominican Republic                              | 10,058  | 11,336  | -478      | 11,153  | 13,732  | -1,288    | 11,927  | 15,343  | -2,096    | 11,860            | 17,914    | -4,437    |
| Costa Rica                                      | 9,721   | 10,747  | -971      | 11,074  | 12,450  | -1,023    | 12,850  | 14,103  | -1,647    | 13,834            | 16,536    | -2,676    |
| El Salvador                                     | 4,557   | 7,744   | -724      | 5,185   | 8,797   | -671      | 5,533   | 9,890   | -1,183    | 6,121             | 11,012    | -1,596    |
| Guatemala                                       | 6,611   | 11,234  | -1,432    | 7,601   | 12,712  | -1,524    | 8,714   | 14,511  | -1,786    | 9,637             | 15,581    | -1,863    |
| Honduras  | 3,494   | 5,245   | -147      | 6,022   | 8,339   | -404      | 6,430   | 9,957   | -1,275    | 6,956             | 11,604    | -1,977    |
| Nicaragua                                       | 1,963   | 3,404   | -745      | 2,378   | 3,963   | -710      | 2,709   | 4,649   | -1,001    | 3,074             | 5,456     | -1,475    |
| Panama  | 10,808  | 10,688  | -759      | 12,416  | 11,918  | -527      | 14,262  | 14,628  | -1,422    | 16,153            | 17,604    | -2,792    |
| <b>ANDEAN SOUTH AMERICA</b>                     |         |         |           |         |         |           |         |         |           |                   |           |           |
| Bolivia   | 3,280   | 2,866   | 634       | 4,352   | 3,459   | 1,317     | 4,957   | 4,143   | 1,591     | 6,948             | 5,680     | 2,015     |
| Colombia  | 24,393  | 24,900  | -1,881    | 28,558  | 30,355  | -2,983    | 34,213  | 37,416  | -5,837    | 42,588            | 44,727    | -6,761    |
| Ecuador   | 11,480  | 11,851  | 322       | 14,213  | 13,749  | 1,618     | 16,070  | 15,619  | 1,650     | 20,556            | 20,743    | 1,194     |
| Peru  | 29,450  | 15,205  | 1,148     | 26,490  | 18,241  | 2,854     | 31,041  | 23,941  | 1,220     | 35,166            | 34,005    | -4,180    |
| Venezuela                                       | 56,829  | 28,915  | 25,534    | 66,782  | 38,503  | 27,149    | 70,838  | 52,987  | 20,001    | 95,409            | 56,359    | 39,202    |
| <b>MERCOSUR REGION</b>                          |         |         |           |         |         |           |         |         |           |                   |           |           |
| Argentina                                       | 46,813  | 34,925  | 5,690     | 54,569  | 41,111  | 7,770     | 66,356  | 53,353  | 7,412     | 82,111            | 67,536    | 7,034     |
| Brazil  | 134,355 | 97,962  | 13,985    | 157,283 | 120,467 | 13,643    | 184,603 | 157,790 | 1,551     | 228,393           | 220,247   | -28,227   |
| Chile   | 48,317  | 38,148  | 1,315     | 66,510  | 44,362  | 7,154     | 76,618  | 53,958  | 7,189     | 77,209            | 69,011    | -3,440    |
| Paraguay  | 4,045   | 4,158   | 41        | 5,199   | 5,406   | 128       | 6,437   | 6,487   | 165       | 8,832             | 9,393     | -345      |
| Uruguay   | 5,085   | 4,692   | 42        | 5,787   | 5,877   | -392      | 6,850   | 6,722   | -80       | 9,258             | 10,068    | -1,119    |
| <b>LATIN AMERICAN AND CARIBBEAN<sup>2</sup></b> |         |         |           |         |         |           |         |         |           |                   |           |           |
|   | 560,629 | 479,391 | 36,244    | 781,193 | 699,626 | 50,862    | 879,663 | 833,159 | 16,692    | 1,017,983         | 1,004,426 | -26,887   |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Preliminary estimates for 2008 from ECLAC

<sup>2</sup> Includes only those countries which have complete data for the four years

<sup>3</sup> Exports and Imports Include both goods (FOB) and services

**Table 6**  
**GROSS DISBURSED EXTERNAL DEBT, 1999-2008**  
(Millions of US dollars)

|                                    | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008 <sup>1</sup> |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| <b>NAFTA REGION</b>                |                |                |                |                |                |                |                |                |                |                   |
| Mexico                             | 166,381        | 148,652        | 144,526        | 140,099        | 140,554        | 139,152        | 130,731        | 117,506        | 141,823        | 150,142           |
| <b>DR-CAFTA COUNTRIES</b>          |                |                |                |                |                |                |                |                |                |                   |
| Dominican Republic                 | 3,661          | 3,679          | 4,176          | 4,536          | 5,987          | 6,380          | 6,813          | 6,296          | 7,566          | 7,220             |
| Costa Rica                         | 3,641          | 5,307          | 5,265          | 5,310          | 5,575          | 5,710          | 6,485          | 6,994          | 8,341          | 9,082             |
| El Salvador                        | 2,789          | 2,831          | 3,148          | 3,987          | 7,917          | 8,211          | 8,761          | 9,586          | 9,075          | 9,711             |
| Guatemala                          | 2,631          | 2,644          | 2,925          | 3,119          | 3,467          | 3,844          | 3,723          | 3,958          | 4,226          | 4,382             |
| Honduras                           | 4,691          | 4,711          | 4,757          | 4,922          | 5,242          | 5,912          | 5,093          | 3,879          | 3,028          | 3,321             |
| Nicaragua                          | 6,548          | 6,660          | 6,374          | 6,363          | 6,596          | 5,391          | 5,348          | 4,527          | 3,385          | 3,512             |
| Panama                             | 5,568          | 5,604          | 6,263          | 6,349          | 6,504          | 7,219          | 7,580          | 7,788          | 8,276          | 8,477             |
| <b>ANDEAN SOUTH AMERICA</b>        |                |                |                |                |                |                |                |                |                |                   |
| Bolivia                            | 4,573          | 6,740          | 6,861          | 6,945          | 7,709          | 7,562          | 7,666          | 6,278          | 5,386          | 5,913             |
| Colombia                           | 36,733         | 36,130         | 39,163         | 37,382         | 38,065         | 39,497         | 38,507         | 40,103         | 44,553         | 46,392            |
| Ecuador                            | 15,902         | 13,216         | 14,376         | 16,236         | 16,756         | 17,211         | 17,237         | 17,099         | 17,445         | 16,514            |
| Peru                               | 28,586         | 27,981         | 27,195         | 27,872         | 29,587         | 31,244         | 28,657         | 28,672         | 33,137         | 34,587            |
| Venezuela                          | 37,016         | 36,437         | 35,398         | 35,460         | 40,456         | 43,679         | 46,427         | 44,952         | 52,949         | 46,360            |
| <b>MERCOSUR REGION</b>             |                |                |                |                |                |                |                |                |                |                   |
| Argentina                          | 152,563        | 155,014        | 166,272        | 156,748        | 164,645        | 171,205        | 113,799        | 108,873        | 124,575        | 128,112           |
| Brazil                             | 225,610        | 216,921        | 209,935        | 210,711        | 214,929        | 201,373        | 169,451        | 172,589        | 193,219        | 198,361           |
| Chile                              | 34,758         | 37,177         | 38,527         | 40,504         | 43,067         | 43,517         | 44,934         | 47,590         | 55,822         | 64,768            |
| Paraguay                           | 2,996          | 3,275          | 3,074          | 3,336          | 3,371          | 3,330          | 3,056          | 3,069          | 3,174          | 3,507             |
| Uruguay                            | 8,261          | 8,895          | 8,937          | 10,548         | 11,013         | 11,593         | 11,418         | 10,560         | 12,218         | 12,027            |
| <b>LATIN AMERICA AND CARIBBEAN</b> |                |                |                |                |                |                |                |                |                |                   |
|                                    | <b>763,170</b> | <b>743,532</b> | <b>750,019</b> | <b>743,955</b> | <b>775,759</b> | <b>771,919</b> | <b>676,019</b> | <b>663,050</b> | <b>752,094</b> | <b>778,247</b>    |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

**Table 7**  
**DEBT<sup>1</sup>/EXPORT RATIO, 1999-2008**  
(as a percentage of exports of goods and services)

|                                    | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 <sup>2</sup> |
|------------------------------------|------|------|------|------|------|------|------|------|------|-------------------|
| <b>NAFTA REGION</b>                |      |      |      |      |      |      |      |      |      |                   |
| Mexico                             | 112  | 83   | 84   | 78   | 81   | 70   | 60   | 44   | 49   | 49                |
| <b>DR-CAFTA COUNTRIES</b>          |      |      |      |      |      |      |      |      |      |                   |
| Dominican Republic                 | 46   | 41   | 50   | 55   | 67   | 68   | 67   | 65   | 63   | 61                |
| Costa Rica                         | 37   | 41   | 46   | 46   | 46   | 45   | 37   | 63   | 65   | 66                |
| El Salvador                        | 88   | 77   | 88   | 105  | 115  | 108  | 109  | 185  | 164  | 159               |
| Guatemala                          | 76   | 69   | 75   | 79   | 84   | 85   | 75   | 52   | 48   | 45                |
| Honduras                           | 210  | 189  | 196  | 196  | 195  | 190  | 148  | 66   | 47   | 48                |
| Nicaragua                          | 680  | 604  | 570  | 557  | 505  | 327  | 287  | 191  | 125  | 114               |
| Panama                             | 78   | 72   | 78   | 84   | 86   | 82   | 71   | 63   | 58   | 52                |
| <b>ANDEAN SOUTH AMERICA</b>        |      |      |      |      |      |      |      |      |      |                   |
| Bolivia                            | 349  | 303  | 296  | 283  | 262  | 197  | 151  | 144  | 109  | 85                |
| Colombia                           | 263  | 229  | 260  | 263  | 242  | 203  | 157  | 141  | 130  | 109               |
| Ecuador                            | 298  | 221  | 253  | 264  | 229  | 192  | 150  | 120  | 109  | 80                |
| Peru                               | 372  | 330  | 321  | 302  | 274  | 210  | 146  | 107  | 107  | 98                |
| Venezuela                          | 166  | 105  | 126  | 128  | 141  | 109  | 83   | 67   | 75   | 49                |
| <b>MERCOSUR REGION</b>             |      |      |      |      |      |      |      |      |      |                   |
| Argentina                          | 546  | 496  | 533  | 538  | 479  | 431  | 245  | 199  | 188  | 156               |
| Brazil                             | 409  | 336  | 311  | 301  | 257  | 185  | 126  | 109  | 105  | 87                |
| Chile                              | 165  | 160  | 172  | 179  | 162  | 114  | 94   | 72   | 73   | 84                |
| Paraguay                           | 95   | 98   | 109  | 120  | 108  | 83   | 70   | 59   | 49   | 40                |
| Uruguay                            | 238  | 243  | 274  | 392  | 357  | 270  | 225  | 183  | 178  | 130               |
| <b>LATIN AMERICA AND CARIBBEAN</b> |      |      |      |      |      |      |      |      |      |                   |
|                                    | 211  | 172  | 181  | 178  | 168  | 138  | 101  | 85   | 85   | 76                |

SOURCE: ECLAC, 2008-2009 Economic Survey of Latin America and the Caribbean

<sup>1</sup> Gross disbursed external debt includes the public-and-private sector external debt. Also includes International Monetary Fund loans.

<sup>2</sup> Preliminary estimates for Year 2008 from ECLAC

Table 8

**EXCHANGE RATES AND IMF AGREEMENTS, 2009**

|                             | Currency           | US Dollar Exchange Rate |                   |          | Exchange Rate Regime | IMF Agreements (Dates)           |
|-----------------------------|--------------------|-------------------------|-------------------|----------|----------------------|----------------------------------|
|                             |                    | September 1, 2008       | September 1, 2009 | % change |                      |                                  |
| <b>NAFTA REGION</b>         |                    |                         |                   |          |                      |                                  |
| Mexico                      | peso               | 10.31                   | 13.29             | -5.55%   | Independent Float    | Flexible Credit Line (4/09-4/10) |
| <b>DR-CAFTA COUNTRIES</b>   |                    |                         |                   |          |                      |                                  |
| Dominican Republic          | peso               | 35.67                   | 36.51             | -2.35%   | Managed Float        |                                  |
| Costa Rica                  | colón              | 563.16                  | 594.44            | -5.55%   | Managed Float        | Stand-by (4/09-7/10)             |
| El Salvador                 | colón/U.S. dollar  | 8.92                    | 8.91              | 0.11%    | Dollarized           | Stand-by (1/09-3/10)             |
| Guatemala                   | quetzal            | 7.58                    | 8.38              | -10.55%  | Managed Float        | Stand-by (4/09-10/10)            |
| Honduras                    | lempira            | 19.42                   | 19.24             | 0.93%    | Managed Float        |                                  |
| Nicaragua                   | córdoba oro        | 19.52                   | 20.53             | -5.17%   | Managed Float        | PRGF (10/07-10/10)               |
| Panama                      | balboa/U.S. dollar | 1.02                    | 1.02              | 0.00%    | Dollarized           |                                  |
| <b>ANDEAN SOUTH AMERICA</b> |                    |                         |                   |          |                      |                                  |
| Bolivia                     | boliviano          | 7.15                    | 7.16              | -0.14%   | Managed Float        |                                  |
| Colombia                    | peso               | 1956.00                 | 2050.75           | -4.84%   | Independent Float    | Flexible Credit Line (5/09-5/10) |
| Ecuador                     | sucre/U.S. dollar  | 1.00                    | 1.00              | 0.00%    | Dollarized           |                                  |
| Peru                        | nuevo sol          | 3.01                    | 2.96              | 1.66%    | Independent Float    | Stand-by (1/07-2/09)             |
| Venezuela                   | bolivar fuerte     | 2.15                    | 2.15              | 0.00%    | Managed and Licensed |                                  |
| <b>MERCOSUR REGION</b>      |                    |                         |                   |          |                      |                                  |
| Argentina                   | peso               | 3.09                    | 3.86              | -24.92%  | Engineered Float     |                                  |
| Brazil                      | real               | 1.63                    | 1.88              | -15.34%  | Independent Float    |                                  |
| Chile                       | peso               | 511.25                  | 560.77            | -9.69%   | Independent Float    |                                  |
| Paraguay                    | guarani            | 4081.20                 | 5055.50           | -23.87%  | Independent Float    | Stand-by (5/06-8/08)             |
| Uruguay                     | peso               | 19.62                   | 22.97             | -17.07%  | Managed Float        |                                  |

SOURCES: Oanda <[www.oanda.com/convert/fxhistory](http://www.oanda.com/convert/fxhistory)>; IMF Homepage <[www.imf.org](http://www.imf.org)>

Key for IMF Agreements:

Stand-by is the most common type of credit arrangement designed to provide short-term financial assistance

**Table 9**  
**SOCIAL ENVIRONMENT, 2009**

|                             | POPULATION | AVG. POP. GROWTH | ILLITERATE POP.          | GDP PER CAPITA            | GDP P/C (PPP) GROWTH | INCOME INEQUALITY       | HDI                       | POPULATION IN POVERTY    | URBAN UNEMPLOYMENT RATE |
|-----------------------------|------------|------------------|--------------------------|---------------------------|----------------------|-------------------------|---------------------------|--------------------------|-------------------------|
|                             | (Millions) | %                | (% age 15+) <sup>1</sup> | (PPP \$U.S.) <sup>2</sup> | %                    | GINI index <sup>3</sup> | (World rank) <sup>4</sup> | %                        | %                       |
|                             | 2010       | 2005-2010        | 1999-2007                | 2009                      | 1990-2007            | 2007                    | 2009                      | 2007                     | 2008                    |
| <b>NAFTA REGION</b>         |            |                  |                          |                           |                      |                         |                           |                          |                         |
| Mexico                      | 110.1      | 1.4              | 7.2                      | \$14,104                  | 1.6                  | 48.1                    | 53                        | (2006) 31.7              | 4.9                     |
| <b>DR-CAFTA REGION</b>      |            |                  |                          |                           |                      |                         |                           |                          |                         |
| Dominican Republic          | 10.2       | 1.7              | 10.9                     | \$6,706                   | 3.8                  | 50.0                    | 90                        | 44.5                     | 14.1                    |
| Costa Rica                  | 4.7        | 1.3              | 4.1                      | \$10,842                  | 2.6                  | 47.2                    | 54                        | 18.6                     | 4.8                     |
| El Salvador                 | 7.5        | 1.4              | 18.0                     | \$5,804                   | 1.8                  | 49.7                    | 106                       | (2004) 47.5              | 5.5                     |
| Guatemala                   | 14.4       | 2.8              | 26.8                     | \$4,562                   | 1.4                  | 53.7                    | 122                       | (2006) 54.8              | (2006) 2.7              |
| Honduras                    | 7.6        | 2.3              | 16.4                     | \$3,796                   | 1.5                  | 55.3                    | 112                       | 68.9                     | 4.2                     |
| Nicaragua                   | 5.8        | 2.0              | 22.0                     | \$2,570                   | 1.9                  | 52.3                    | 124                       | (2005) 61.9              | 8.0                     |
| Panama                      | 3.5        | 1.6              | 6.6                      | \$11,391                  | 2.6                  | 54.9                    | 60                        | 29.0                     | 6.5                     |
| <b>ANDEAN SOUTH AMERICA</b> |            |                  |                          |                           |                      |                         |                           |                          |                         |
| Bolivia                     | 10.4       | 2.0              | 9.3                      | \$4,206                   | 1.3                  | 58.2                    | 113                       | 54.0                     | (2007) 7.7              |
| Colombia                    | 47.9       | 1.5              | 7.3                      | \$8,587                   | 1.2                  | 58.5                    | 77                        | (2005) 46.8              | 11.5                    |
| Ecuador                     | 14.2       | 1.6              | 9.0                      | \$7,449                   | 1.2                  | 54.4                    | 80                        | 42.6                     | 6.9                     |
| Peru                        | 28.9       | 1.6              | 10.4                     | \$7,836                   | 2.7                  | 49.6                    | 78                        | 39.3                     | 8.4                     |
| Venezuela                   | 28.8       | 1.6              | 4.8                      | \$12,156                  | -0.2                 | 43.4                    | 58                        | 28.5                     | 7.3                     |
| <b>MERCOSUR REGION</b>      |            |                  |                          |                           |                      |                         |                           |                          |                         |
| Argentina                   | 40.5       | 1.0              | 2.4                      | \$13,238                  | 1.5                  | 50.0                    | 49                        | (2006) 21.0 <sup>5</sup> | 7.9                     |
| Brazil                      | 200.0      | 1.0              | 10.0                     | \$9,567                   | 1.2                  | 55.0                    | 75                        | 30.0                     | 7.9                     |
| Chile                       | 17.1       | 1.0              | 3.5                      | \$13,880                  | 3.7                  | 52.0                    | 44                        | (2006) 13.7              | 7.8                     |
| Paraguay                    | 6.5        | 1.9              | 5.4                      | \$4,433                   | -0.3                 | 53.2                    | 101                       | 60.5                     | 7.4                     |
| Uruguay                     | 3.4        | 0.6              | 2.1                      | \$11,216                  | 1.5                  | 46.2                    | 50                        | 18.1 <sup>5</sup>        | 7.9                     |

**SOURCES:** UNDP, *Human Development Report 2009*; CEPAL, *Panorama Social de America Latina 2008*

<sup>1</sup> Data refer to national illiteracy estimates from censuses or surveys conducted between 1995 and 2007, unless otherwise specified.

<sup>2</sup> 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

<sup>3</sup> 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

<sup>4</sup> 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.).

<sup>5</sup> Percent of urban population in poverty

**Table 10**  
**POLITICAL ENVIRONMENT, 2009**

|                             | Level of Democratic Consolidation |                       |                     |                        | Current Government |           |                        |
|-----------------------------|-----------------------------------|-----------------------|---------------------|------------------------|--------------------|-----------|------------------------|
|                             | Election Inaugurating             | Unscheduled           | Political           | Civil                  | President / PM     | Term      | Control of Legislature |
|                             | Democracy                         | Head-of-State Changes | Rights <sup>1</sup> | Liberties <sup>2</sup> |                    |           |                        |
| <b>NAFTA REGION</b>         |                                   |                       |                     |                        |                    |           |                        |
| Mexico                      | 2000                              |                       | 2                   | 3↓                     | Calderón           | 2006-2012 | Opposition Coalition   |
| <b>DR-CAFTA COUNTRIES</b>   |                                   |                       |                     |                        |                    |           |                        |
| Dominican Republic          | 1963                              | 1                     | 2                   | 2                      | Fernandez          | 2008-2012 | Government             |
| Costa Rica                  | 1949                              |                       | 1                   | 1                      | Arias              | 2006-2010 | Opposition             |
| El Salvador                 | 1984                              |                       | 2                   | 3                      | Funes              | 2009-2014 | Opposition             |
| Guatemala                   | 1985 <sup>3</sup>                 | 1                     | 3                   | 4                      | Colon              | 2008-2012 | Opposition             |
| Honduras                    | 1982                              | 1                     | 3                   | 3                      | ?                  | 2009-2013 | ?                      |
| Nicaragua                   | 1984                              |                       | 4↓                  | 3                      | Ortega             | 2007-2011 | Opposition             |
| Panama                      | 1994                              |                       | 1                   | 2                      | Martinelli         | 2009-2014 | Govt. Coalition        |
| <b>ANDEAN SOUTH AMERICA</b> |                                   |                       |                     |                        |                    |           |                        |
| Bolivia                     | 1980 <sup>3</sup>                 | 7                     | 3                   | 3                      | Morales            | 2006-2010 | Govt. Coalition        |
| Colombia                    | 1958                              |                       | 3                   | 4↓                     | Uribe              | 2006-2010 | Govt. Coalition        |
| Ecuador                     | 1978 <sup>3</sup>                 | 8                     | 3                   | 3                      | Correa             | 2009-2013 | Government             |
| Peru                        | 1980 <sup>3</sup>                 | 1                     | 2                   | 3                      | García             | 2006-2010 | Opposition             |
| Venezuela                   | 1958                              | 6                     | 4                   | 4                      | Chávez             | 2007-2013 | Government             |
| <b>MERCOSUR REGION</b>      |                                   |                       |                     |                        |                    |           |                        |
| Argentina                   | 1983 <sup>3</sup>                 | 4                     | 2                   | 2                      | C. Kirchner        | 2007-2011 | Government             |
| Brazil                      | 1989                              |                       | 2                   | 2                      | Lula da Silva      | 2006-2010 | Govt. Coalition        |
| Chile                       | 1989                              |                       | 1                   | 1                      | Bachelet           | 2006-2010 | Opposition             |
| Paraguay                    | 1993                              |                       | 3                   | 3                      | Lugo               | 2008-2013 | Govt. Coalition        |
| Uruguay                     | 1985                              |                       | 1                   | 1                      | Vázquez            | 2005-2010 | Government             |

SOURCE: *Freedom in the World 2009: Setbacks and Resilience*. <[www.freedomhouse.org/template.cfm?page=445](http://www.freedomhouse.org/template.cfm?page=445)>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Interrupted democracies

↑ ↓ Up or down indicate, respectively, an improvement or a worsening of the political environment from 2008.

**Table 11**  
**CENTRAL GOVERNMENT BALANCE 2004-2008**  
*(Percentages of GDP)*

|                                    | Primary balance |      |      |      |                   | Overall balance |      |      |      |                   |
|------------------------------------|-----------------|------|------|------|-------------------|-----------------|------|------|------|-------------------|
|                                    | 2004            | 2005 | 2006 | 2007 | 2008 <sup>1</sup> | 2004            | 2005 | 2006 | 2007 | 2008 <sup>1</sup> |
| <b>NAFTA REGION</b>                |                 |      |      |      |                   |                 |      |      |      |                   |
| Mexico h/                          | 1.7             | 1.9  | -0.3 | -0.5 | -0.2              | -0.2            | -0.1 | -1.8 | -2.0 | -1.6              |
| <b>DR-CAFTA COUNTRIES</b>          |                 |      |      |      |                   |                 |      |      |      |                   |
| Dominican Republic j/              | -1.6            | 0.7  | 0.3  | 1.4  | -1.6              | -3.4            | -0.6 | -1.1 | 0.1  | -3.2              |
| Costa Rica                         | 1.4             | 2.0  | 2.7  | 3.7  | 2.4               | -2.7            | -2.1 | -1.1 | 0.6  | 0.2               |
| El Salvador                        | 0.9             | 1.1  | 2.0  | 2.2  | 1.7               | -1.1            | -1.0 | -0.4 | -0.2 | -0.6              |
| Guatemala g/                       | 0.3             | -0.3 | -0.6 | 0.0  | -0.3              | -1.1            | -1.7 | -1.9 | -1.4 | -1.6              |
| Honduras                           | -1.5            | -1.1 | -0.1 | -2.3 | -1.7              | -2.6            | -2.2 | -1.1 | -2.9 | -2.3              |
| Nicaragua                          | -0.1            | 0.1  | 1.8  | 1.9  | 0.0               | -2.2            | -1.8 | 0.0  | 0.4  | -1.2              |
| Panama i/                          | -1.2            | 0.5  | 4.4  | 4.7  | 3.4               | -5.4            | -3.9 | 0.2  | 1.2  | 0.3               |
| <b>ANDEAN SOUTH AMERICA</b>        |                 |      |      |      |                   |                 |      |      |      |                   |
| Bolivia c/                         | -3.1            | 0.3  | 5.3  | 3.5  | 2.5               | -5.7            | -2.3 | 3.5  | 2.3  | 1.8               |
| Colombia e/                        | -1.6            | -1.5 | 0.1  | 1.0  | 0.9               | -5.0            | -4.5 | -3.5 | -2.7 | -2.3              |
| Ecuador f/                         | 1.5             | 1.8  | 2.0  | 1.9  | 0.3               | -1.0            | -0.5 | -0.2 | -0.1 | -1.2              |
| Peru                               | 0.6             | 1.1  | 3.2  | 3.5  | 3.6               | -1.3            | -0.7 | 1.5  | 1.8  | 2.2               |
| Venezuela                          | 1.8             | 4.6  | 2.1  | 4.5  | 0.1               | -1.9            | 1.6  | 0.0  | 3.0  | -1.2              |
| <b>MERCOSUR REGION</b>             |                 |      |      |      |                   |                 |      |      |      |                   |
| Argentina b/                       | 3.2             | 2.3  | 2.7  | 2.7  | 2.5               | 2.0             | 0.4  | 1.0  | 0.6  | 0.4               |
| Brazil d/                          | 2.6             | 2.5  | 2.1  | 2.3  | 2.5               | -1.9            | -3.6 | -2.9 | -1.9 | -0.8              |
| Chile                              | 3.1             | 5.4  | 8.4  | 9.4  | 5.8               | 2.1             | 4.6  | 7.7  | 8.8  | 5.3               |
| Paraguay g/                        | 2.7             | 2.0  | 1.5  | 1.8  | 3.3               | 1.6             | 0.8  | 0.5  | 1.0  | 2.6               |
| Uruguay                            | 2.4             | 2.8  | 3.2  | 2.1  | 1.7               | -2.5            | -1.6 | -1.0 | -1.6 | -1.0              |
| <b>LATIN AMERICA AND CARIBBEAN</b> |                 |      |      |      |                   |                 |      |      |      |                   |
|                                    | 0.6             | 1.4  | 2.2  | 2.2  | 1.4               | -1.9            | -1.1 | 0.0  | 0.3  | -0.3              |

Source: (ECLAC) Economic Commission for Latin America and the Caribbean, 2008

<sup>1</sup> Preliminary estimates for the year 2008 from ECLAC b/ National public administration, on an accrual basis. c/ General government.

d/ Federal government and central bank. The figures are derived from the primary balance based on the below-the-line criterion and nominal inter

e/ Central national government. Does not include the cost of financial restructuring. f/ Accrual basis. g/ Central administration. h/ Public sector

i/ The overall balance for 2005 includes an adjustment for compensation to bondholders amounting to 111.6 million balboas. j/ Accrual basis.

**Table 12**  
**LEGAL ENVIRONMENT, 2009**

|                                 | Rule of Law <sup>1</sup> | Corruption Perception <sup>2</sup> |       | Economic Freedom <sup>3</sup> |       | Property Rights <sup>4</sup> | Crime Victimization <sup>5</sup> |
|---------------------------------|--------------------------|------------------------------------|-------|-------------------------------|-------|------------------------------|----------------------------------|
|                                 | Percentile Rank          | Index                              | Rank  | Score                         | Rank  | Percentile Rank              | % Yes                            |
| <b>NAFTA REGION</b>             |                          |                                    |       |                               |       |                              |                                  |
| Mexico                          | 29.7 ↓                   | 3.6 ↑                              | 72    | 65.8 ↓                        | 49 ↓  | 50                           | 42                               |
| <b>CAFTA-DR</b>                 |                          |                                    |       |                               |       |                              |                                  |
| Dominican Republic              | 33.0 ↓                   | 3.0                                | 102 ↓ | 59.2 ↓                        | 88 ↓  | 30                           | 25                               |
| Costa Rica                      | 62.7 ↑                   | 5.1 ↑                              | 47 ↓  | 66.4 ↓                        | 46 ↑  | 50                           | 33                               |
| El Salvador                     | 30.6 ↑                   | 3.9 ↓                              | 67    | 69.8 ↓                        | 33    | 50                           | 36                               |
| Guatemala                       | 12.9 ↑                   | 3.1 ↑                              | 96 ↑  | 59.4 ↓                        | 87 ↓  | 30                           | 31                               |
| Honduras                        | 20.6 ↑                   | 2.6 ↑                              | 126 ↓ | 58.7 ↓                        | 91 ↓  | 30                           | 36                               |
| Nicaragua                       | 21.1 ↓                   | 2.5 ↓                              | 134 ↓ | 59.8 ↓                        | 84 ↓  | 25                           | 28                               |
| Panama                          | 49.8 ↓                   | 3.4 ↑                              | 85 ↑  | 64.7                          | 55 ↓  | 30                           | 12                               |
| <b>ANDEAN SOUTH AMERICA</b>     |                          |                                    |       |                               |       |                              |                                  |
| Bolivia                         | 12.0 ↓                   | 3.0 ↑                              | 102 ↑ | 53.6 ↓                        | 130 ↓ | 20 ↓                         | 33                               |
| Colombia                        | 37.8 ↑                   | 3.8                                | 70 ↓  | 62.3 ↑                        | 72 ↓  | 40                           | 29                               |
| Ecuador                         | 9.1 ↓                    | 2.0 ↓                              | 151 ↓ | 52.5 ↓                        | 137 ↓ | 25 ↓                         | 33                               |
| Peru                            | 25.8 ↓                   | 3.6 ↑                              | 72    | 64.6 ↑                        | 57 ↓  | 40                           | 37                               |
| Venezuela                       | 2.9 ↓                    | 1.9 ↓                              | 158 ↑ | 39.9 ↓                        | 174 ↓ | 5 ↓                          | 53                               |
| <b>BRAZIL AND SOUTHERN CONE</b> |                          |                                    |       |                               |       |                              |                                  |
| Argentina                       | 32.1 ↓                   | 2.9                                | 109 ↓ | 52.3 ↓                        | 138 ↓ | 20 ↓                         | 39                               |
| Brazil                          | 46.4 ↑                   | 3.5                                | 80 ↓  | 56.7 ↑                        | 105 ↓ | 50                           | 40                               |
| Chile                           | 88.0 ↓                   | 6.9 ↓                              | 23 ↓  | 78.3 ↓                        | 11 ↓  | 90                           | 31                               |
| Paraguay                        | 15.3 ↓                   | 2.4                                | 138   | 61.0 ↑                        | 79 ↓  | 30 ↓                         | 30                               |
| Uruguay                         | 65.6 ↑                   | 6.9 ↑                              | 23 ↑  | 69.1 ↑                        | 38 ↑  | 70                           | 28                               |

1: As measured by the World Bank's Governance Indicators: 1996-2008 <www.worldbank.org>. The percentages measure the extent to which agents have confidence in and abide by the rules of society, including perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

2: As measured by Transparency International, Corruption Perceptions Index 2008 <www.transparency.org>. Focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The scores used in the index range from 10 (country perceived as virtually corruption-free) to almost 0 (country perceived as almost totally corrupt). The country ranks measure the corruption level in 159 countries as perceived by business people, risk analysts, investigative journalists and the general public.

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from 2007. The absence of an arrow indicates "no change" from the previous year.

3: As measured by the Heritage Foundation's 2008 Index of Economic Freedom. Scores are based on a 1 to 100 scale, 1 being an economic environment that is least conducive to economic freedom, 100 being the most conducive. Countries are also ranked in order of economic freedom, 1 being the most free.

4: As measured by the Heritage Foundation's 2008 Index of Economic Freedom. The percentages measure the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. 100% indicates that private property is guaranteed by the government, 0% indicates that private property is outlawed.

5: As measured by Latino barometro 2008. "Have you, or someone in your family, been assaulted, attacked, or been the victim of a crime in the past 12 months?" Those who responded "Don't know" or did not provide an answer were excluded from the results.

**Table 13**  
**LEGAL ENVIRONMENT, 2009**

|                                 | Days Required to <sup>1</sup> |                                |                                |                                   | Paying Taxes <sup>2</sup>       |                             |                                  | Intellectual Property <sup>3</sup>                             |
|---------------------------------|-------------------------------|--------------------------------|--------------------------------|-----------------------------------|---------------------------------|-----------------------------|----------------------------------|--|
|                                 | Start a Business <sub>a</sub> | Register Property <sub>b</sub> | Enforce Contracts <sub>c</sub> | Trade Across Borders <sub>d</sub> | Number of Payments <sub>a</sub> | Hours Required <sub>b</sub> | Tax Rate (% Profit) <sub>c</sub> | Estimated Trade Losses due to copyright Piracy in millions USD |
| <b>NAFTA REGION</b>             |                               |                                |                                |                                   |                                 |                             |                                  |  |
| Mexico                          | 28 ↓                          | 74                             | 415                            | 23                                | 27 ↓                            | 549 ↓                       | 51.5                             | 916.7  |
| <b>CAFTA-DR</b>                 |                               |                                |                                |                                   |                                 |                             |                                  |  |
| Dominican Republic              | 18                            | 60                             | 460                            | 9                                 | 9                               | 480                         | 35.7 ↓                           | 12 (2007)  |
| Costa Rica                      | 60 ↑                          | 21                             | 877                            | 18                                | 43                              | 282 ↑                       | 55.7                             | 29.8   |
| El Salvador                     | 17 ↑                          | 31                             | 786 ↑                          | 14 ↑                              | 53                              | 320 ↓                       | 34.9 ↓                           | 17.8 (2001)  |
| Guatemala                       | 26                            | 30                             | 1,459                          | 19                                | 39                              | 344                         | 36.5 ↓                           | 23.8 (2002)  |
| Honduras                        | 20 ↑                          | 23 ↑                           | 900 ↓                          | 20                                | 47                              | 224 ↑                       | 49.3 ↑                           | **   |
| Nicaragua                       | 39                            | 124                            | 540                            | 29 ↑                              | 64                              | 240                         | 63.2                             | **   |
| Panama                          | 13 ↑                          | 44                             | 686                            | 9                                 | 59                              | 482                         | 50.6 ↑                           | **   |
| <b>ANDEAN SOUTH AMERICA</b>     |                               |                                |                                |                                   |                                 |                             |                                  |  |
| Bolivia                         | 50                            | 92                             | 595 ↓                          | 19 ↑                              | 41                              | 1,080                       | 78.1                             | 21.8 (2005)  |
| Colombia                        | 36 ↑                          | 23                             | 1,346                          | 14 ↑                              | 31 ↑                            | 256 ↑                       | 78.4 ↑                           | 116.5 (2007)   |
| Ecuador                         | 65                            | 16 ↑                           | 588 ↓                          | 20 ↑                              | 8                               | 600                         | 34.9 ↑                           | 51 (2006)  |
| Peru                            | 65 ↑                          | 33                             | 468                            | 24                                | 9                               | 424                         | 41.2 ↑                           | 110.5  |
| Venezuela                       | 141                           | 47                             | 510                            | 49 ↓                              | 70                              | 864                         | 56.6 ↓                           | 174.6 (2006)   |
| <b>BRAZIL AND SOUTHERN CONE</b> |                               |                                |                                |                                   |                                 |                             |                                  |  |
| Argentina                       | 32 ↓                          | 51                             | 590                            | 13 ↑                              | 9 ↑                             | 453 ↑                       | 108.1 ↑                          | 340.1  |
| Brazil                          | 152                           | 42 ↑                           | 616                            | 14 ↑                              | 11                              | 2,600                       | 69.4 ↓                           | 1,185.10   |
| Chile                           | 27                            | 31                             | 480                            | 21                                | 10                              | 316                         | 25.9 ↑                           | 130  |
| Paraguay                        | 35                            | 46                             | 591                            | 35 ↑                              | 35                              | 328 ↓                       | 35 ↓                             | 135 (2007)   |
| Uruguay                         | 44                            | 66                             | 720                            | 19                                | 53                              | 336                         | 58.5                             | 10.1 (2002)  |

<sup>1</sup> As measured by the World Bank Group's report "Doing Business 2009" a) Average time in calendar days spent registering a firm. b) Average time in calendar days spent completing the procedures to register property. c) Average time in calendar days from the moment a plaintiff files a lawsuit in court until the moment of payment. d) Average time in calendar days necessary to comply with all procedures required to export goods,

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from 2007. The absence of an arrow indicates "no change" from the previous year.

<sup>2</sup> As measured by the World Bank Group's report "Doing Business 2009" a) total number of tax payments per year b) time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions c) total amount of taxes and mandatory contributions payable by the business.

<sup>3</sup> As measured by the International Intellectual Property Alliance 2009 Country Reports. Estimates are based on 2008 losses due to copyright piracy in millions of USD unless year is otherwise noted. Industries included in estimates include; sound recordings and musical compositions, business software, entertainment software, motion pictures and books.

## SELECTED SOURCES MONITORED FOR 2008 LABER

### **Print**

*The Economist*

*LatinFinance*

*Wall Street Journal*

### **On-line**

*BBC Mundo.com*

<http://news.bbc.co.uk/hi/spanish/news/>

*Bloomberg.com: Latin America*

<http://www.bloomberg.com/news/regions/latinamerica.html>

*Brazil Focus: Weekly Report*

Subscriptions available at [fleischer@aol.com.br](mailto:fleischer@aol.com.br)

*Council on Hemispheric Affairs Report*

<http://www.coha.org/>

*Latin American Newspapers accessible through Latin American Network Information Center at*

<http://www1.lanic.utexas.edu/la/region/news/>

*Latin America Advisor: The Interactive Forum for the Region's Leaders*

Subscriptions available to <mailto:freetrial@thedialogue.org>

*Manchester Trade – Export Performance & Trade Relations*

[www.ManchesterTrade.com](http://www.ManchesterTrade.com)

*Miami Herald*

[www.herald.com](http://www.herald.com)

*New York Times*

[www.nytimes.com](http://www.nytimes.com)

*RGE Monitor*

[www.rgemonitor.com](http://www.rgemonitor.com)

### **Primary Data Sources**

*International Monetary Fund*

<http://www.imf.org/>

*Organization of American States Foreign Trade Information System*

<http://www.sice.oas.org/>

*U.N. Economic Commission for Latin America and the Caribbean*

<http://www.cepal.org/default.asp?idioma=IN>

*World Bank: Global Development Finance 2008*

[http://siteresources.worldbank.org/INTGDF2008/Resources/gdf\\_complete\\_web-appended.pdf](http://siteresources.worldbank.org/INTGDF2008/Resources/gdf_complete_web-appended.pdf)

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