ECONOMIC GROWTH IN LATIN AMERICA AND THE CARIBBEAN WILL BE NEGATIVE IN 2002

The economies of Latin America and the Caribbean are expected to experience a 0.8% fall in regional output in 2002, after stagnating in 2001 (0.3%), while unemployment should rise to over 9%, thus establishing a new record. The recession that began in late 2001 sharpened during the first three months of 2002, with regional gross domestic product (GDP) falling more than 3%.


The possibilities of GDP recovery depend on a turnaround in the economies of the United States and Europe, which, if it occurs, would offer prospects of 2.5% to 3% growth in 2003.

Despite the enormous heterogeneity of the region, economic slowdown is widespread and the slump has affected the per capita output of many countries. “The region has not experienced such an adverse situation since the debt crisis during the first half of the 1980s,” ECLAC points out. Then, output rose less than 3% in five years and per capita output fell 7%, amidst enormous volatility.

The acute crisis in Argentina explains the decline in GDP to a large degree. If this country is excluded, regional GDP has risen slightly, by a little more than 1%. Inflation remains low in most countries and some pickup in the regional indicator in 2002 was mainly due to significant devaluations in Argentina and Venezuela.

In 2002, goods exports are expected to fall yet again, by

REGIONAL REPERCUSSIONS OF THE ARGENTINE CRISIS

The grave crisis affecting the Argentine economy has impacted neighbouring countries in several ways, according to the report, Current Conditions and Outlook. Economic Survey of Latin America and the Caribbean 2001-2002, from ECLAC. For example: Argentine imports from its neighbours are expected to tumble from US$6.5 billion in 2001 to US$2.2 billion in 2002.

The magnitude of the Argentine crisis touched off serious concern throughout the region, because it is “exacerbating the difficulties that the countries were already facing as a result of their own domestic problems and the series of shocks they have sustained in recent years.”

In this context, “The greatest danger of all is that these disturbances could be transmitted to other economies. Contagion of this sort could trigger a systemic crisis in the region and perhaps even in other emerging economies. This threat is particularly serious because of the current fragility of the world’s financial system,” ECLAC warns. The problems that have beset the Brazilian economy since last
With economic activity falling by almost 1% in 2002, Latin America will complete half a lost decade in terms of economic growth. Per capita output for this year will be almost 2% less than in 1997. Although the strong contraction in Argentina explains part of this result, slow growth is a much more widespread phenomenon. In the past five years, half the region’s countries have seen their per capita output decline and all of the countries enjoying fast growth in the 1990s have seen it grind to a halt.

The causes of such a widespread trend can only be found in a common source, the international economy. Among the possible explanations, one stands out: the behaviour of international financial markets. The recovery in economic growth from 1990 to 1997 was associated with the return of the capital whose flight generated what ECLAC referred to as the “lost decade” of the 1980s. The 1997 Asian crisis once again triggered capital flight.

The volatility of financial markets has been devastating. Inherent to their functioning are alternating periods during which risk is under- or over-estimated, that is, periods of “irrational exuberance”, as Alan Greenspan, the chairman of the Federal Reserve, called them, followed by “irrational panic”. “Irrational panic” has been all too evident in the cases of Brazil and Uruguay in recent months. Debt levels that until recently - and correctly - were considered manageable have suddenly been reinterpreted as unsustainable. The change is serious because, as the financier George Soros has pointed out, the market can sometimes impose its expectations, even when they are irrational.

Given markets’ obvious failings, a profound reform to the international financial system is required. In recent years, only superficial measures have been applied in this area, and there have been some major strides backward too.

“The idea that it was possible to isolate the Argentine crisis, without generating ‘contagion’ collapsed like a house of cards.”

The delay in the International Monetary Fund’s support for Argentina further worsened financial markets’ hypersensitivity to Latin America. The idea that it was possible to isolate the Argentine crisis, without generating ‘contagion’, collapsed like a house of cards.

Faced with current tension regarding the recovery of the real economy in the United States and financial uncertainty, the hope is that the first of these options will prevail. Speculative pressures affecting the region’s economies must also be defeated. But recovery from the current moment’s specific ills is not enough. An offensive on the part of the developing world in general and our region is required, pushing toward an international economic order that provides more guarantees against financial turbulence, real openness to trade in the industrialized world, more rapid technological transfer, and international agreements on migration.

In our region, it is high time we learned the lessons of the past decade of economic reforms. This would help us to consolidate achievements in terms of price stability and dynamic exports and overcome the hardships involved in volatile, insufficient economic growth and this new development pattern’s inability to guarantee equitable development. Countries should implement national strategies based on three elements: macroeconomic policies whose timeframe is the overall economic cycle, which seek to reduce vulnerability to external financial cycles; an approach to developing production suitable to open economies, which strives to improve their international competitiveness and offer greater opportunities to small and very small firms; and more active social development policies that help to ensure that the benefits of growth reach the entire population. This also requires political leadership to launch a profound process of regional integration. This is the essence of ECLAC’s proposals in recent years and most recently, in its paper, *Globalization and Development*. 

The author is ECLAC’s Executive Secretary.
an estimated 1.5%, because of the slow recovery of industrialized economies and prices that remain low for the main export commodities. The downward trend in commodity prices seemed to touch bottom in late 2001, but these still haven’t recovered lost ground. Improvements in the regional trade balance reflect a sharp drop in import demand in Argentina. Other economies are again posting trade deficits, although more moderate ones, bringing the deficit for trade in goods and services to around US$5 billion.

For the fourth year in a row, the region will suffer a net outflow of resources. Foreign direct investment (FDI) flows will continue to drop and financial capital will remain scarce. Capital inflows are expected to hover around US$50 billion, well down from the US$74 billion average in inflows from 1996 to 1998. In 2002, autonomous capital inflows are expected to reach US$38 billion, in addition to the US$11.5 billion in compensatory financing that has already entered the region. The main component of private flows will continue to be FDI, as has been the case throughout the past decade. In contrast, net flows of debt and other private capital will be negligible.

In summary, external financing remained “unstable and volatile”, according to ECLAC, “as international investors become increasingly risk-averse. This is partly due to fallout from the Argentine crisis, but it is also attributable to political uncertainty in the region. From mid-2002 on, an additional factor has been the heightened volatility of the world’s stock markets caused by the discovery that large-scale frauds have been perpetrated in many major United States firms.”

“There is concern about the possibility that the prevailing economic climate in the region may become one of low growth, worsening domestic conditions and bleak prospects for the future,” it warns.

The gap between expectations arising from the new economic model applied in the region during the 1990s and the current prospects for growth is increasingly clear. This gap “is raising a series of questions as to the economic and social sustainability of existing development patterns.”

Country forecasts for 2002

Throughout continental Latin America, there are two groups of countries in terms of growth in 2002. In the first, composed of Argentina, Paraguay, Uruguay and Venezuela, output is projected to fall. In Argentina the recession that began in 1999 deepened and activity is expected to decline by about 13.5%. It is estimated that most of this drop occurred between the second half of 2001 and the first half of 2002, when GDP fell by 16.3% compared to the same period the previous year.

In the second group (Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru) moderate growth of 0% to 3% is projected. In Brazil, where growth should reach 1.5%, GDP dropped almost 1% during the first quarter and strong pressure from financial markets limit the prospects for reactivation during the second half. In Chile, growth is projected to reach 2.5%. In Mexico, where GDP fell 2% during the first quarter, exports to the United States are expected to drive a turnaround, bringing average annual growth to 1% by year’s end.

Peru should perform well (3%) in 2002, because of a boom in primary activities and construction, in a context of rising export volumes. In Colombia, growth should reach around 1%, due to weakening exports, weak domestic demand and a slowdown in manufacturing. In Ecuador, GDP should rise by 2.5%, following on the heels of a 5.6% rise last year. Bolivian should grow 1.5%.

In Central America growth remains relatively low. The situation affecting Caribbean islands varies enormously. While the Dominican Republic grew 4.3% during the first quarter, in Cuba the economy will practically stagnate, and conditions in Haiti remain worrisome, due to the unfavourable domestic context. Growth for the countries of CARICOM (the Caribbean Community) should average 1% overall.

The outlook for both investment and domestic saving is no more optimistic, remaining low as in recent years, while external saving should fall to slightly more than 2% of GDP. Seven countries saw a noticeable drop in investment during the early months of 2002: Argentina (-46.1%), Brazil (-8.4%), Chile (-2%), Colombia (-6%), México (-1%), Peru (-3.5%) and Uruguay (-34%).
The World Summit on Sustainable Development in Johannesburg offers the opportunity to advance toward a kind of development that allows people to satisfy their present and future needs without damaging the environment.

The Economic Commission for Latin America and the Caribbean (ECLAC) presented a proposal at the Summit that reflects the thinking of the region’s governments on how to face pending challenges and explore new forms of cooperation and financing to speed up the transition to sustainable development.

Previously, as part of the preparatory process, the countries of Latin America and the Caribbean evaluated progress to date in applying Agenda 21, agreed upon at the Earth Summit, Rio de Janeiro, 1992.

At that time we concluded that there has not been enough progress toward achieving the financial objectives set by the international community to achieve sustainable development. Delegates also believed that more coordinated regional action would provide better results and ensure a more sustainable participation in terms of their economies and trade.

In our judgement, financing for sustainable development must be the object of an in-depth analysis that examines not only quantitative aspects, but also its purposes. This issue was examined by heads of state at this new World Summit.

The Earth Summit was a landmark in the search for economic, social and environmental well being. The agreements approved there represent a broad and coordinated response from governments worldwide to the need to include the environmental dimension in development policies.

This was the first of a series of world conferences organized to formulate a development agenda in the 1990s (environment, population, social development, women’s situation, housing and food) which form part of the new globalization process. This social cycle of meetings culminated in the Millennium Summit, at which 191 countries adopted the Millennium Declaration, with specific goals in terms of human development and the elimination of poverty by 2015.

Starting with that Summit, three events have shaped the development agenda during this new round of international conferences, more centred on quantitative goals and tools for achieving them: the International Conference on Financing for Development (Monterrey); the Fourth World Conference of the World Trade Organization (Doha); and now the World Summit on Sustainable Development (Johannesburg).

At this recent summit, ECLAC presented two documents: Financing for Sustainable Development in Latin America and the Caribbean and The Sustainability of Development in Latin America and the Caribbean: Challenges and Opportunities, jointly prepared with the United Nations Development Program.

Six Trends in Financing

These reports conclude that there is consensus on the importance of integrating the environmental dimension in economic sectors’ policies, priorities and activities to achieve sustainable development. ECLAC studies detect six trends in financing for sustainable development since 1992:

• Resolving the foreign debt problem is an essential component if we are to achieve an environment that favours sustainable development. In the 1990s, the balance owed on Latin America and the Caribbean’s debt rose constantly: it started at under US$500 billion and had reached US$800 billion by decade’s end.

• Flows of official developmental aid (ODA) fell and today stand at less than one-third of levels committed at the Earth Summit. Aside from quantitative changes, there
have been changes in its distribution by sector. In the 1990s, it ceased to focus on trade-related sectors - manufacturing and telecommunications - and started to move into health care, education, other social services and the environment. One result from Monterrey was to turn around this falling trend in ODA, with the European Union agreeing to boost it to 0.39% by 2006. This change reveals donors’ tendency to finance activities to eradicate poverty, as well as the trend toward liberalization and privatization characteristic of the 1990s.

- Private international financial flows rose significantly, but showed two worrisome characteristics: their volatility and a high concentration in developed countries and a handful of emerging economies, thus leaving out the poorest countries. International trade has become essential to economic growth and sustainable development. This explains the importance of transferring cleaner, more efficient technologies, and providing market access to the products from developing countries.

- Financial support from international bodies rose, in the form of donations and loans for the adoption of environmental measures. Increasingly, environmental criteria are applied when multilateral banking institutions evaluate projects.

- Concessional international multilateral funds have started that function, but their resources are limited. One achievement in Johannesburg will be the return of US$3 billion to the World Environmental Fund over the next three years.

- Domestic financing policies for sustainable development, expressed as both private and public environmental expenditure, have changed very slowly, reflecting the weakness of the relevant institutions within the state apparatus, especially in developing countries. In general, public expenditure on the environment does not exceed 1% of GDP in any country in this region.

Finally, one way of expanding investment in this area is through public-private partnerships to create innovative tools and new markets.

The author is Director of the Sustainable Development and Human Settlements Division, within the Economic Commission for Latin America and the Caribbean (ECLAC).

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[Graphs and tables showing Latin America and the Caribbean: Consumer Prices and Cost and Maturities of International Bond Issues]
May, including the marked volatility of its foreign-exchange market have provided further grounds for these concerns.

The repercussions of the crisis in neighbouring countries are numerous, affecting trade in goods and services; inflows of external resources and remittances from migrant workers; banking systems’ current situation and the profitability of foreign firms with investments in Argentina and the region; the increased volatility of foreign-exchange markets; and economic policies.

Argentine imports experienced a “striking drop”, estimated to have reached two-thirds during the first four months of 2002, influenced by drastic devaluation and domestic weakness, and in turn affecting Mercosur members and Chile.

Those Most Affected

Uruguay has been hit the hardest. During the first four months of this year, its goods exports to Argentina fell by 70% over the same period in 2001, which already posted a serious decline. Moreover, problems arose with export payments, when the funds of Argentine importers were frozen and they lost all access to credit. Tourism from Argentina fell by half. The direct impact of the crisis is calculated at somewhat more than two percentage points of Uruguay’s GDP.

Brazil has also been hurt, even though its economy is almost three times the size of Argentina’s and its markets are considerably more diversified. The steep slide in Brazil’s exports to Argentina has caused its total merchandise exports to shrink by almost 6%. Argentina bought 8.6% of Brazilian exports in 2001, with this figure rising to almost 25% in the case of manufactured goods exports, which are difficult to redirect to other markets in the short term. Brazilian exporters too are facing problems obtaining payment for goods sold. Tourism has also been very affected.

Paraguay too has seen its exports to Argentina plunge by almost two-thirds in the first months of 2002. The unfavourable consequences of Argentine turbulence further exacerbated already existing domestic problems.

The sectors of the Chilean economy that were particularly affected in terms of bilateral merchandise trade were tourism and the profits of Chilean firms with branches in Argentina. Although exports to Argentina were just 3.2% of the total in 2001, the downswing during the first quarter of 2002 had a severe impact (-61.5%).

Remittances from migrant workers also fell, especially in the cases of Bolivia and Paraguay.

It is hard to calculate the precise effects of the Argentine crisis in the financial sphere, as the scenario is clouded by the systemic volatility that has prevailed in emerging markets since 1997. However, the decline in capital inflows from international financial markets has been particularly serious, making credit in Brazil and Uruguay more expensive, although Chile was unaffected.

In 2002, the situation worsened because of difficulties facing foreign firms operating in Argentina, which not only discouraged investment there, but also in other countries throughout the region.

Similarly, the solvency of the financial system was affected. Large foreign (US, Spanish and European) banks with subsidiaries in Argentina have been very hard hit by the crisis. Within the region, Brazilian banks have remained relatively untouched, but Uruguayan banks have suffered considerably, particular the three with the most exposure in Argentina.

Finally, it is worth mentioning the effects on assets due to the losses of transnational firms based in Argentina, a phenomenon that could affect foreign direct investment throughout the region.

The country within the region most affected by its investment in Argentina was Chile, whose holdings had reached some US$3.2 billion. These stock values fell by 12% in the weeks following devaluation in Argentina, while earnings tumbled from US$208 million in 2000 to US$114 in 2001, and are expected to reach zero in 2002.

This document is available at www.eclac.cl or www.eclac.org
n the past decade, structural changes and globalization have encouraged the faster and more massive integration of women into labour markets in Latin American and Caribbean countries, at the same time as their educational levels have risen. While the progress in this field is important, gender inequalities continue to prevail. Above all, the gap remains at levels of decision-making and political power, and is all too apparent in the unequal way that family life is combined with the demands of citizenship. This has limited women’s opportunities for their own development.

Keeping in mind the need to improve gender equality in our countries and encourage more active participation of women in processes to reform the State, ECLAC through its Women and Development Unit, has implemented the project *Capacity-building of national machineries for governance with gender perspective in Latin America and the Caribbean*. Over an initial period of about 36 months, this program will try to strengthen women’s negotiating ability in spaces for dialogue already existing in these societies.

With cooperation from the Division for the Advancement of Women of the United Nations Department of Economic and Social Affairs, the project seeks to develop and support initiatives to eliminate political and electoral obstacles that limit women’s full participation in the decision-making process. This program also seeks to strengthen gender needs at the local level and promote national policies in the area of State reform in selected countries. The project will deal with the situation of women in 12 of the region’s countries, including four from the Caribbean.

**Creating efficient networks for communications**

The main idea is to create efficient networks for communications and interaction among different gender organizations in each country, so they can make proposals coherent with women’s needs for cooperation and dialogue, which generally end up influencing parliaments in their elaboration of national policies. To be successful, these proposals must take into consideration the particularities of each country’s State reform process, as these differ according to the specific conditions prevailing in each country.

Upon completion, the project’s goal is to have improved countries’ ability to collect, analyze and apply specialized knowledge, information and techniques for formulating and implementing public policies, with special attention paid to promoting gender equality.

As an initial activity, the project developed a questionnaire for collecting specific information about how gender equity is considered when designing, executing and evaluating policies to reform and modernize the State. Surveys went out to every country’s national office for women’s progress in the region.

Similarly, the project plans to carry out several regional and national studies. The former will focus on a diagnosis of the state of knowledge about the subject of this initiative and the relevant institutional and social actors. National studies will serve as the starting point for local activities to strengthen skills necessary to enable women to progress.

This ECLAC project will be presented at the 33rd meeting of the *Presiding Officers of the Regional Conference on Women*, to be held at the headquarters of this regional commission of the United Nations in Santiago, Chile, 5 and 6 September 2002. The Regional conference on Women in Latin America and the Caribbean is an ECLAC subsidiary that brings together authorities responsible for women’s issues and policies designed to ensure gender equity in the region’s countries.

More information on the project *Capacity-building of national machineries for governance with gender perspective in Latin America and the Caribbean* is available in English on the ECLAC Women and Development Unit’s web page, at: [http://www.eclac.cl/mujer/proyectos/gobernabilidad/english/default.htm](http://www.eclac.cl/mujer/proyectos/gobernabilidad/english/default.htm).
La Banca Multilateral de Desarrollo en América Latina (Multi-lateral Development Banks in Latin America), by Francisco Sagasti. Financiamiento del Desarrollo Series No. 119, May 2002. (LC/L.1731-P, Spanish, US$10). The region’s countries special relationship with these institutions has helped to overcome the structural deficit in domestic saving. This study examines the role that multilateral banks have played in long-term financing and future prospects.

Capital Social Rural. Experiencias de México y Centroamérica (Rural Social Capital. Experiences from Mexico and Central America), by Margarita Flores and Fernando Rello. Co-published by ECLAC, Plaza y Valdés Editores and Mexico’s Universidad Autónoma. US$14.50 at bookstores. How community social capital can play a key role in mobilizing beneficial resources. For more information: libros@pyv.info


Estudio de Suministro de Gas Natural desde Venezuela y Colombia a Costa Rica y Panamá (Study of Natural Gas Supply from Venezuela and Colombia to Costa Rica and Panama), edited by Víctor Rodríguez Padilla. Recursos Naturales e Infraestructura Series No. 40, June 2002 (LC/L 1675-P, Spanish, US$10). The prospects for supplying the southern region of Central America with natural gas from South America are good. Central America could also receive gas from Venezuela.


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Calendary

MONTH
EVENT
VENUE
AUGUST
26 - 4 September
World Summit on Sustainable Development, United Nations (UN).
Johannesburg, South Africa
SEPTEMBER
2 - 13
II International seminar on Financing of Social Security. Latin American and Caribbean Institute for Economic and Social Planning (ILPES)/ECLAC.
ECLAC headquarters, Santiago, Chile
2 - 13
IV International seminar on Providing and Regulating Infrastructure Services. ILPES/ECLAC.
ECLAC
4
XI Meeting of Specialized Bodies and other UN System Organizations on the Progress of Women in Latin America and the Caribbean, ECLAC.
ECLAC
5 - 6
XXXIV Meeting of the Steering Committee of the Regional Conference on Women in Latin America and the Caribbean.
ECLAC
6
National dialogue on governance and water “Toward the Third World Forum on Water”, South America Technical Advisory Committee (SAMTAC), ECLAC.
ECLAC
OCTOBER
3 - 4
International seminar on Experiences in Sustainable Development at the Municipal Level in Latin America and the Caribbean, World Bank, ECLAC.
ECLAC
10 - 11
Regional Forum on Trade Policy. UN Conference on Trade and Development (UNCTAD), Latin American Trade Network (LATN), ECLAC.
ECLAC
16 - 18
1st Meeting on Road Safety (Primera Jornada de Seguridad Vial), Comisión Nacional de Seguridad de Tránsito (National Commission on Transit Safety), ECLAC.
ECLAC
NOVEMBER
20 - 22
Regional Conference on Migration and Development, Human Rights and Trafficking in Migrants, Latin American and Caribbean Population Division (CELADE), ECLAC.