LATIN AMERICA AND THE CARIBBEAN’S ECONOMIES TURN IN STRONGER PERFORMANCES THIS YEAR

The economy of Latin America and the Caribbean will grow 4.5% in 2004, according to estimates from the Economic Commission for Latin America and the Caribbean (ECLAC). This figure reflects an upward correction to the previous estimate from May. In its Economic Survey of Latin America and the Caribbean, 2003-2004, ECLAC notes that this recovery has benefited almost every country and the region will complete its second year of growth, which rose 1.5% in 2003.

Venezuela will lead growth at 12%, followed by Uruguay (9.5%) and Argentina (7.1%), all three countries recovering from deep plunges. They’re followed by Ecuador (5.5%), Panama (5%), Chile (4.8%), Peru (4.2%), Mexico (3.9%) and Brazil, Colombia and Costa Rica, with 3.7%. In contrast, Haiti will see its economy fall by 2% and the Dominican Republic, 1%.

Per capita GDP will rise 3%, although following the stagnation of the late 1990s and early 2000s, this will only bring it back to a level similar to that of 1998. Despite these two years of growth, the unemployment rate is high (10.3% in the first half of 2004) and it will fall very slowly, while almost half of the region’s people live in poverty.

According to the report, this growth is driven by exports, as these are responding to...
Chinese economy must be dealt with sooner or later and, although they do not pose an immediate threat, they suggest slower growth in the world economy. The way the necessary corrections take shape will be decisive for the pace of growth. Fortunately, in China’s case the indicators available show that some “cooling” is already apparent, without disrupting the world economy.

As our preliminary estimates predicted, today we can confirm that after the difficulties that marked the end of the past decade and the start of this one, Latin America and the Caribbean will grow again in 2004. ECLAC projections indicate that the region’s GDP will rise at least 4.5%, which means 3% growth per capita. This positive figure is even more important if we consider that growth will occur in all but two of the region’s economies.

Exports, stimulated by favourable international conditions, will again be the strongest performer within demand. It is encouraging to note that the thrust from external demand is starting to be followed by a rise in consumption and investment, although still incipient, driven by greater economic activity, rising employment and higher country incomes, generated by the improved terms of trade.

Nor can it be forgotten that the current economic bonanza reflects a framework of domestic economic policies characterized by more control over fiscal accounts, prudent management of monetary variables, and an exchange rate strategy oriented to sustaining levels of competitiveness.

While it is encouraging to see the region growing for the second year in a row, I would like to reflect on the problems that remain pending and the risks facing the current process of economic recovery. If we adopt a medium-term perspective, we see per capita GDP is barely higher than it was in 1998. Moreover, despite these two years of growth, the unemployment rate remains high and is falling very slowly, contributing to the fact that almost half the region’s inhabitants live in poverty.

Another feature of the current economic situation is that, as a result of the growth of exports and the slow recovery in domestic demand, Latin America and the Caribbean achieved a surplus in its current account in 2003 for the first time in 50 years, a situation that will recur this year at an even higher level. However, this is not good news for a region that not only has shown a chronic weakness when it comes to generating an appropriate level of domestic saving, but now must dedicate part of this to finance the rest of the world. To understand the implications of this situation in all its depth, it should be noted that investment’s share of GDP is the lowest since the 1970s.

Meanwhile, the co-existence of low interest rates, high real exchange rates and good international prices for the main export products offers, in the short term, an opportunity that should be fully taken advantage of to consolidate the recovery in domestic demand.

However, the external context on which this recovery to a large degree depends is not free of problems. Some economic imbalances, such as the external and fiscal deficits apparent in the US economy or the overheating of the

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favourable international conditions, especially the recovery in some developed economies, such as the United States and Japan, and the boost of the Chinese economy, which favours commodity producing countries. The world economy is expected to grow 3.8% this year.

For the region, the main stimuli are coming from the decline in sovereign risk premiums from their 2002 peaks, the rise in commodity prices, the turnaround in tourism, and growth in non-oil exports to the United States and other major markets. In 2003 the price index for export commodities rose by 15.4%, and by 7.2% excluding oil. However, in April-May 2004 these markets weakened and the prices of several products fell.

Domestic economic policies are also showing signs of more fiscal and monetary control, along with more competitive exchange rates that have made it possible to take advantage of favourable external conditions, this regional commission of the United Nations notes in its Economic Survey.

How long this new growth phase will last depends on future trends in both domestic and external factors. Domestically, the weak demand apparent in many of the region’s economies raises doubts about the likelihood of this recovery consolidating. In the external context, meanwhile, some economic imbalances must be faced sooner or later and, while they don’t pose immediate risks, suggest that the world economy will grow more slowly in the medium term.

In its report, ECLAC considers it likely that domestic consumption will recover in 2004, reflecting an increase in economic activity, rising employment, and countries’ higher income thanks to better terms of trade.

Similarly, indicators available for 2004 reveal that investment is starting to recover, thanks to the increase in economic activity and the more intensive use of installed capacity that comes with it.

### Scenarios for 2004

If the trends apparent during the first five months of 2004 hold steady, the surplus in the current account of the balance of payments should reach about 0.8% of GDP. Likewise the surplus in the balance of goods will be higher than in 2003, because the exceptional export growth will outpace the recovery in imports.

The prospects for 2004 point to a recovery in foreign direct investment inflows, which should reach about US$35 billion, after falling for four years running. The average cost of the region’s external financing fell from 12.7% to 9.9% in 2003, and figures posted during the first quarter of 2004 have continued to fall to 9.4% per year.

In terms of economic policy, the region’s countries remain concerned about price stability and being able to contain rising public debt, as in 2003. In recent years, fiscal policy has sought to reduce the deficit and by 2003 countries had significantly trimmed their public accounts. According to ECLAC, this trend should continue in 2004, when the primary surplus should average one percentage point of GDP, unheard of for many years.

In terms of exchange rate policy, and taking a medium-term perspective, most outstanding is the fact that the region’s average real effective exchange rate in late 2003 was 18% higher than the average for 1997-2001. This gain in competitiveness has been maintained during the first five months of 2004.

For this year, inflation in Latin America and the Caribbean is projected to be lower than in 2003 (8.5%) and almost four percentage points lower than in 2002 (12.1%).

After the severe plunge in labour conditions that began in 1998, incipient economic recovery slightly improved the labour market in 2003, creating some new jobs. However, despite a modest rise in the employment rate from 51.6% to 52.0%, unemployment still stayed at a high 10.5%. During the first half of 2004, the region’s unemployment rate is estimated to have fallen to 10.3%, from 10.7% during the same period last year.
The focus of social policies has changed in the past 20 years, opening the way to programmes involving broad coverage of groups particularly affected by poverty. These programmes have diverse objectives, which run from service provision, temporary employment and the delivery of nutritional supplements through to monetary transfers.

Some of these have achieved good results, both in terms of relieving poverty and encouraging women’s empowerment and building their sense of citizenship. These effects were not specifically sought after but are nonetheless behind many of the achievements. These programmes share (sometimes implicitly) assumptions about the division of roles between men and women, which turn the latter into priority groups for their implementation.

Studies carried out by ECLAC’s Women and Development Unit on Ecuador’s Bono de Desarrollo Humano (Human Development Bond) and Mexico’s Oportunidades (Opportunities) programme, anti-poverty strategies in Brazil, especially the Bolsa Escola (School) programme, Peru’s Vaso de Leche (Glass of Milk) or Jefas y Jefes (Female/ Male Headed Households) in Argentina, reveal that these are oriented toward women as direct beneficiaries.

This occurs in some cases because the State or municipal institutions that manage the benefits consider women to have certain managerial abilities, altruism, and solidarity that favour efficiency in managing resources, and they therefore focus distribution on women-mothers.

Women are considered more willing to meet the conditions set by these programmes. Undoubtedly, underlying these selection criteria is the generalized idea that women, almost by nature, are capable of showing more solidarity and altruism, as well as the idea that their time is elastic and of little value socially and monetarily.

There is already plenty of evidence on the positive results in terms of compliance with the specific objectives of these programmes, such as improvements in family nutrition or higher school registration. There is also consensus that these programmes alone are not enough to reduce poverty, which stems from low growth rates, enormous social inequality, poor income distribution, and institutional deficiencies.

But a critique of economic policies should not invalidate the results of some programmes. Nor can these be expected to meet economic objectives that go beyond their scope, as one expert expressed so well during the International Seminar on Democratic Governability, Poverty and Gender Equity, held in Ecuador in August (see www.eclac.cl/mujer). The debate about “poor policies, for the poor, with poor results” goes far beyond the reach of focused schemes, which in many cases offer valuable lessons.

Research ratifies the importance of women’s contribution to anti-poverty efforts.

One 30-year long study by anthropologist Jeanine Anderson shows how a family in Pamplona, on Lima’s south side, emerged from poverty between 1978 and 2001, thanks to a process of intrafamily cooperation led by a woman who knew how to actively take advantage of the set of public programmes available.

Whether the situation involves a woman with a stand selling potatoes in Lima’s wholesale market or a mother with a store in her home, a stall at a local market or low-wage employment (for example, as an auxiliary in a public hospital), all showed enormous ability to lead and articulate networks of family and social solidarity that allowed them to accumulate the resources necessary to overcome poverty.

In many cases, the decisive factor was not the profitability of the activity but rather the constancy of the woman’s work, day after day, year after year. Other factors probably contributed too, such as the expansion and diversification of the social network that women build around them, which provides access to new resources, doubling those that the man/husband channels.

The data reveal the crucial importance of the mother’s labour to overcome periods when the father’s job or business is shaky. The ability for mother and father to alternate, with each taking turn as the anchor for family income in successive stages, is a pattern that for many households has meant the difference between drowning irremediably and making successful transitions toward a new way of operating.

Moreover, in many cases poor women acquire social recognition along with their role of being responsible for the family. This gives them more financial autonomy, as they are in charge of managing monetary resources, improves their negotiating abilities and even optimizes the distribution of resources inside the family.
One evaluation of Oportunidades notes that “the monthly meetings, the chatting about health, the community labour and the fact they received support, made it possible for women to get out of their homes and their communities and develop new forms of interaction between themselves that went beyond dealing with the issues directly involved in programme components.”

Guadalupe López, of Mexico’s Ministry of Social Development, mentions the rise in women’s “ability to make decisions, manage and control monetary support as they independently decide how to spend the money, even on items not recommended by the programme, such as spending occasionally on themselves,” as another impact worth highlighting.

The paradox of this process is that this skill development takes shape within the traditional roles that form part of the new rhetoric used by anti-poverty programmes.

**Monetary Transfers and Autonomy**

Similarly, an evaluation of Ecuador’s Bono de Desarrollo Humano from a study by Amparo Armas points out that the main positive effects take the shape of initial levels of autonomy and empowerment, but when these are not associated with actions that reinforce them, they become fragile and subject to the presence of the transfer.

There is consensus that it is monetary transfer programmes that produce the best impact on women’s autonomy. This was clear in Brazil, where women asked that food donations be replaced by monetary transfers. Aside from the benefits of diversification on their diets and the ability to decide, there was also a gain in their management abilities and although they did not participate in the programme’s design, they grew increasingly influential as implementation proceeded.

Ceres Prates examines the evaluations of Bolsa Escola, a Brazilian programme, where it was noted that women became more respected as the person responsible for their children’s education, which improved their self-esteem and even stimulated their interest in going back to school themselves.

In short, the programme increased the self-confidence of the beneficiaries, making room for socialization and reciprocity, developing leadership skills, earning them recognition of their identity, their household and community work, as well as redistributing this work more fairly.

However, these achievements appear as unsought-after effects of aid programmes. They should quickly become part of specific strategies that include redistribution of responsibilities and benefits of these programmes, so that women grow stronger in their roles as intermediaries of programmes, but above all as active subjects exercising other economic and social rights.

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school registration are much lower, ranging from 26% in Guatemala to 70% or 80% in Argentina, Chile, Cuba, Mexico, Peru and Uruguay.

The Search for Additional Resources

To meet the educational commitments assumed by the governments of Latin America and the Caribbean, when they signed the Millennium Declaration and other international agreements, requires investment that most countries are in no condition to make with their own public financing.

One of the advantages of diversifying financing sources is to achieve more flexible spending. Now more than 90% of educational spending goes to teachers and administrative personnel. “Fresh” resources would make it possible to finance programmes to improve continuity within the educational system of the most vulnerable sectors, for example. To attract new financing sources requires a virtuous dynamic in which financial resources are managed efficiently and produce the hoped for impact on society, according to the study.

Additional resources may come from three sources. First, tax policy. The region’s revenues remain small, with several countries tax rates under 15%, while those of the industrialized countries range from 20% to 35%.

Second, they may come from private domestic resources, which will require involving families and the business sector. An emerging and promising field has to do with Corporate Social Responsibility (CSR) which involves different pressure groups - shareholders, investors, employees and unions, consumers and non-governmental organizations (NGOs).

Finally, external sources must also be examined. International cooperation offers almost the only source of additional resources, but given the experience of the past 40 years, “there is growing recognition of the need to evaluate and change traditional structures for cooperation,” the study notes. Converting debt into resources for education offers another possible route, although somewhat limited.

Innovative Mechanisms Improve Efficiency

Countries are already successfully applying some innovative mechanisms to improve efficiency and effectiveness. These include:

- Subsidizing demand or supply using demand criteria (the “funds follow the children”), which uses market mechanisms to finance schools in proportion to the students they capture and maintain.
- Reallocation spending by educational level, given that the university level involves per student costs that are up to eight times higher than spending on primary education, and focuses mainly on a student body that largely comes from families able to privately contribute to their children’s education.
- Direct transfers to low-income families with school-age children.

On learning processes themselves, one key is class time. In most of the region’s countries this time is very short in terms of months and days of classes within the annual calendar, and it is interrupted by too lengthy an end-of-year vacation period.

Progress in information and communication technologies, above all Internet, make the educational process and cutting costs easier. The study proposes placing these at the disposal of planners, managers and implementers of the educational system, which does not require enormous investment or excessive training, although it does require ensuring that all have access.

Accountability

Another key concept is accountability, which makes it possible to know if the school is complying with the agreed-upon targets and functions. The information on school performance, measured through standardized tests, must be publicized widely. Nonetheless, the evaluation reports for ten countries (Argentina, Bolivia, Brazil, Costa Rica, Chile, Ecuador, Mexico, Paraguay, Peru and Uruguay) show these have had no direct consequences for schools, a situation that must change.

Finally, according to the study, improving teaching cannot be understood as merely providing more training or wage increases. Both interventions are necessary, but alone they do not significantly improve teachers’ performance nor their quality of life.
There are enough water and gas reserves in Latin America and the Caribbean to ensure the whole region’s energy supply at reasonable prices. Nonetheless, a climate of insecurity is clearly felt today. Supply problems and flaws must be resolved since if they are not they will hamper growth. To do so urgently requires redefining the role of the State.

Two ECLAC studies, entitled Seguridad y calidad del abastecimiento eléctrico a más de 10 años de la reforma de la industria eléctrica en países de América del Sur (Security and the Quality of Electrical Supply Ten Years After Reforms to the Electrical Industry in the Countries of South America), by Pedro Maldonado and Rodrigo Palma, and Fundamentos para la constitución de un mercado común de electricidad (Fundamentals for Creating a Common Electric Power Market), by Alfredo Muñoz Ramos, both published as part of the Recursos Naturales e Infraestructura series, analyze this situation.

The first study reviews the crisis in the electrical industry during the 1980s, which triggered questioning of the state-owned monopoly and led to reforms that were meant to encourage competition: include the private sector as owner, supplier of technology and operator; assign the State a subsidiary role; and establish a new price system.

Chile was the first to apply the new model, followed by Argentina, Bolivia, Peru, Brazil and Colombia, where legal and regulatory frameworks sharing certain common elements were developed and competition was permitted among the main components in the chain. Costa Rica, Mexico, Uruguay, Paraguay and Venezuela applied different models of reforms.

A decade later, there has been clear progress in the functioning of the electrical industry, and during the early years there was even a strong investment process. This progress later bogged down, however.

The ECLAC study details the uncertainty and regulatory gaps that could explain the lack of new actors in cases like that of Chile or the lack of investment in Brazil, which have produced “a latent vulnerability affecting several of the region’s electrical systems.”

The reform brought with it the State’s voluntary withdrawal from its leadership role, reinforced by the shrinking size of the public apparatus that was supposed to set policy, regulate and supervise trends in the electrical industry. As a result, “the integrated and long-term vision ended up in no man’s land,” the study indicates.

One of the recommendations is that the State should guarantee supply and the quality of electrical supply, which includes “coordinating, orienting and planning the development of the electrical industry,” to ensure an appropriate thermal-hydro balance in terms of generators, a highly reliable system, and the diversification of energy sources.

**Bi national Agreements for Electrical Interconnection**

The second study, Fundamentos para la constitución de un mercado común de electricidad, proposes eliminating the barriers that prevent market integration by building transmission lines that interconnect the different countries and establishing clear rules on the mission of governments, public and private investment, and how the interconnected system operates.

In Latin America, the process of electrical interconnection has been “slow and insufficient,” according to the author, who analyzes the difficulties and proposes options for overcoming the obstacles, mainly through bilateral agreements.

In any case, there are already some projects that suggest the benefits of working together to make the most of the region’s energy resources. The countries of Central America are close to consolidating their electrical grid with the building of a 230 kV line that will unite them with Panama, giving birth to the Regional Electrical Market.

In South America, since 1966 a series of large-scale bi national projects have been carried out by Brazil and Paraguay (Itaupú), Uruguay and Argentina (Salto Grande), and Argentina and Paraguay (Yacyretá). Another project, the Salta generating station, was built in Argentina at the well’s mouth to supply Chile’s northern grid (Sistema Interconectado del Norte Grande), but is not connected with the Argentine grid.

Similarly, in the context of the Acuerdo de Interconexión Regional de Energía entre los Países Andinos (Agreement for a Regional Energy Grid Among Andean Countries), Colombia has exported electricity to Venezuela and Ecuador, but only in very small amounts.

The author argues that governments must participate actively in the development of interconnected electrical grids.
América Latina y el Caribe en la era global (Latin America and the Caribbean in the Global Era). José Antonio Ocampo and Juan Martin, coordinators. Jointly published by ECLAC-Alfaomega, May 2004. Globalization offers opportunities and national strategies must be designed to take advantage of them, the authors argue. They go on to propose a positive agenda to build a new economic order, as well as identifying the risks and enormous challenges that globalization poses.

La distribución espacial de la pobreza en relación a los sistemas ambientales en América Latina (Spatial Distribution of Poverty in Relation to Environmental Systems in Latin America), by Andres Schuschny and Gilberto Gallopin (LC/L.2157-P, Spanish, August 2004 Medio ambiente y desarrollo series, No. 87).

Computer techniques calculate the quantity and density of the poor and total populations in each of the four main earth environments defined by the Millennium Ecosystem Evaluation: forests, cultivated land, arid and mountainous areas. The results by country are summarized in this study.

Manual de organización estadística, tercera edición: El funcionamiento y organización de una oficina de estadística (Handbook of Statistical Organization: The Operation and Organization of a Statistical Agency, Third Edition, LC/W.6/E, August 2004). The unofficial translation of the English handbook, published by the UN’s Department of Economic and Social Affairs. This preliminary version has been published thanks to its enormous usefulness, although it should not be read from start to finish since it is, rather, a check list of the issues to be considered by an effective statistical body. Only in electronic version.

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