

Upbeat 2007 forecasts mask lagging performance

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Like many of you, I was happy to read the latest projections that Latin American and Caribbean economies will have another good year in 2007. But, at the risk of being a party pooper, I'm afraid that these forecasts are spreading an unrealistic sense of optimism.

Once again, top international institutions said in their year-end reports last week that the region will grow by more than 4 percentage points in 2007. It will be the fifth consecutive year of strong regional economic growth, and the best such stretch of economic stability in two decades.

The United Nations Commission for Latin America and the Caribbean (ECLAC) is forecasting that the region will grow by 4.7 percent in 2007, led by Argentina (7.5 percent), Venezuela, Panama and the Dominican Republic (7 percent), and Peru and Uruguay (6 percent).

The World Bank is forecasting a somewhat more moderate -- but still good -- regional economic growth of 4.2 percent for next year. Argentina will grow by 5.6 percent, Brazil by 3.4 percent and Mexico by 3.5 percent, it says.

Worldwide, developing countries will grow at more than twice the rate of the mature economies of the United States and Europe. Contrary to the conventional wisdom in much of Latin America, globalization is helping developing countries more than anybody else, they say.

"Developing countries that only two decades ago provided 14 percent of manufactured imports of rich countries, today supply 40 percent, and by 2030 are likely to supply over 65 percent," the World Bank report says. "At the same time, import demand from developing countries is emerging as a locomotive of the global economy."

But if you read beyond the first paragraphs of these reports, you may conclude that the picture for Latin America is not as rosy as it seems.

The region's growth is mostly due to external factors, such as high world commodity prices, strong demand from the United States and China, low international interest rates, and record-high family remittances from Latin Americans living in the United States.

And an expected slowdown in global activity would affect these positive conditions in 2007. In other words, the cycle of strong growth may have already peaked.

What could Latin America do to maintain its current growth rates for decades, like China and India?

Most international economists agree that, first of all, Latin America should stop fooling itself into thinking that its recent growth rates result from domestic policies, or -- in some cases -- from anti-globalization or anti-business stands.

In fact, it's exactly the opposite: Latin America is growing at a slower pace than all other developing regions, and it's because it is not taking as much advantage of globalization as others, they say. In 2007, sub-Saharan Africa will grow by 5.3 percent, Central Europe by 5.7 percent, India by 7.7 percent and China by 9.6 percent, according to the World Bank.

Second, Latin America should use its current period of economic stability to spend on education, science and technology, so as to add value to its exports and reduce its dependence on commodity prices. Incredibly, while Communist China is starting to teach intensive English in all public schools in third grade, Mexico, Argentina and most other Latin American countries start teaching English four years later, in seventh grade.

Third, Latin American countries should create a better business climate and reduce government red tape as a way to draw more investments.

Amazingly, while it takes 13 legal steps to open a business in China, it takes 15 steps in Argentina, 16 in Venezuela and 17 in Brazil.

My opinion: I'm not taking away credit from several countries in the region for keeping low inflation rates and -- in the case of Brazil, Chile, and Peru -- staying the course with pro-market economic policies that are reducing poverty. But I'm afraid that the upbeat projections for 2007 will generate a dangerous sense of complacency in the region's political and economic elites, which will lead to further reform paralysis.

Rather than celebrating the optimistic projections, they should be asking why Latin America is not growing as fast as China, India, Eastern Europe and African countries that have inserted themselves more enthusiastically into the global economy. Let's hope they tackle this question in 2007.

In the meantime, happy holidays!