

2012 Outlook: Concern, Yes; Despair, No

2012 will be a better year than last thanks to continuing incremental changes in policy, management and firm-level operations.

BY JERRY HAAR

Anyone attending the recent World Economic Forum in Davos would have to agree that the mood has changed since last year's gathering. While there remains unease about the global economy, the consensus is that "nervousness has replaced despair among business leaders," to quote two *Financial Times* reporters.

Just what is in store for the global economy in 2012? A number of key indicators and drivers provide a clear picture of likely outcomes. To begin with, global growth has declined from 5 percent in 2010 and will slump to 3.3 percent through 2012, courtesy of the anemic performance of advanced economies that will experience growth of less than 2 percent.

Clearly the U.S. and the Eurozone heavily influence global economic fortunes (or misfortunes). Unfortunately, uncertainties about the U.S. fiscal outlook and failure to tackle debt sustainability could lead to higher U.S. Treasury rates. An anemic economic recovery with persistent high unemployment, home foreclosures, and individual bankruptcies do not bode well for 2012. For Europe, the situation is worse with sovereign and bank weaknesses, falling business, investor and consumer confidence, and fiscal disaster looming in Southern Europe.

China's and India's growth rates will decline slightly. The insatiable demand for commodities by China and India will subside moderately and private consumption levels will remain strong despite a contraction in real credit growth.

For Latin America and the Caribbean, the growth rate will most likely decline slightly from 4 percent to 3.5 percent. Asia's demand for commodities will contribute to respectable, if not robust, growth countries such as Peru, Chile, Argentina, and Brazil, while the Mexico, Central America, and the Caribbean will perform less well, given their heavy dependence on the United States for investment, exports, and tourism. Chile, Colombia and Peru are expected to grow the fastest in 2012.

The outlook for Latin America, however, is less dependent on external factors than internal ones. According to the Heritage Foundation/Wall Street Journal Index of Economic Freedom, only one country from the region — Chile—ranks among the top 20, in position number 7. It is not surprising then that in a related ranking on global competitiveness by the World Economic Forum the region fares poorly, also, falling year after year since the 2003 commodity boom. (Commodity dependence has increased from 44 percent of exports in 2003 to 54 percent in 2010.)

Sadly, Latin America's productivity is less than Asia, and it is easier to do business in Pakistan or Albania than Brazil, which ranked #126 out of 183 countries in the World Bank's *Doing Business* index. Education and infrastructure spending levels are extremely poor; and as for fomenting knowledge industries, venture capital represents just 5 percent of the total invested worldwide, and R&D expenditures, patents, trademarks, and scientific publications are all well below that of Asia.

As dismaying as the overall economic situation may appear for Latin America, there is good news to report for most of the big emerging markets. Despite a *Doing Business* ranking of 113 out of 183, the second highest inflation rate in Latin America, and a protectionist and anti-foreign investment environment, *Argentina* will fare well this year with GDP of 4.6 percent—above the region's average—relentless government and consumer spending, and the good fortune of large natural gas discoveries. *Brazil* is another case of economic contradiction ranking worse than Argentina in *Doing Business* (126), poor stock market performance last year, and one of the worst regulatory and tax environments, yet it remains the darling of the international investment community and enjoys a strong currency, vigorous consumer spending, diversified export markets, large oil discoveries, and the benefits of a World Cup and Olympics within two years apart.

Chile remains the darling of the Americas, with the best environment for doing business in the Americas, an enforceable rule of law, the lowest levels of corruption and historically high levels of investment (\$14 billion in FDI in 2011). Like Argentina and Brazil, Chile is even more dependent on commodity exports to fuel growth. Its diversification into services and information technology will contribute to a growth level that will second highest in both the Andean and Mercosur regions, Peru ranking first. *Colombia* has emerged as a nation in many ways even more attractive than Chile, given its large internal market. By setting and policing inflation goals with low interest rates, floating exchange rates, and fiscal responsibility; foreign commercial and investment banks are very bullish on Colombia in 2012. Fundamentals such as sound regulatory and tax policies, a diversified economy and highly productive labor will produce an above-average growth rate for the year, compared to the

region as a whole. In the case of *Peru*, although cooling down from last year, private consumption and investment will keep GDP above 5 percent. HSBC predicts the nation should average annual growth of 5.5 percent over the next 40 yrs, helped by demographics and rising education standards. The centrist policies of President Humala have increased confidence for local business and foreign investors, and the demand for Peru's mining and mineral products remains strong.

In the case of *Mexico*, its great fortune is its great misfortune---economic dependency on the United States, the destination for the bulk of its exports and the source of most of its FDI. Performance in 2012 is tightly connected to that of the United States, so the pace of U.S. recovery is a dominant driver of Mexico's economic performance. The ratio of debt to GDP is very low, and FDI continues as multinationals avail themselves of the country's skilled workforce and industrial base. The appreciation of the yuan/weakening of the peso has given a boost to Mexican exports and to FDI. The July presidential election in which the PRI is expected to regain power is considered positive for the business environment.

Venezuela will remain a pariah in 2012 as its dictator-in-residence will continue to destroy what's left of free markets and democratic institutions. Even with the high price of petroleum, growth will not exceed 3.5 percent, food shortages, and the highest inflation in the Americas will ravage the nation. Subsidies and increased government spending along with anticipated electoral fraud will ensure another six years of Hugo Chavez in the October presidential elections.

But what does all this mean for business, especially multinational firms? As multinational firms and investors have shifted their attention away from Latin America to Asia during the last decade, there has also been a culling out process in the Americas whereby a select number of countries—Argentina, Brazil, Chile, Colombia, Argentina, Peru, Mexico and Panama—garner attention in corporate boardrooms. Brazil and Chile lead in venture capital; and in mergers and acquisitions Brazilian firms were responsible for 7 of the top 10 deals in 2011.

The brightest rays of sunshine peering through the economic clouds of 2012 are global companies, their suppliers and support systems, such as GE, Medtronic, Caterpillar, Unilever and Siemens in advanced economies, and Daewoo, Odebrecht, Tata, Cemex, and Haier in emerging markets.

For Latin America, despite longstanding impediments enumerated above, continuing incremental changes in policy, leadership, management and firm-level operations provide ample reason to believe that 2012 will be a better year than last.

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