

## LATIN AMERICA

# Region may escape worst of recession

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An economic adage asserts that whenever the United States sneezes, Latin America catches a cold. A number of analysts and pundits speculate that given the worsening recession, the cold could quickly turn into pneumonia. Among the disturbing statistics they cite are: a projected drop in GDP from over 4 percent in 2008 to less than 3 percent, falling tax revenues, increased unemployment and a 10 percent drop in foreign investment.

While Latin America has not evaded the malady of recession, its collective immune system is a lot stronger today than in the past:

- **Macroeconomic policy.** Most Latin American countries will continue to pursue prudent fiscal and monetary policies that have benefited them for more than a decade. For the most part banks are sound and well-capitalized. Brazil's bank reserves are two times external financing requirements. Chilean banks are flush with liquidity, and Mexico has \$84 billion in reserves. Foreign bank purchases of local financial institutions have been a boon to banking stability and health in most of the region, as well.

- **Their own rescue packages.** Taking their cue from the U.S. bailout experiences, governments are putting together their own plans. Brazil is easing reserve



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- **"Multilatins."** The number, diversity and growth of Latin American multinationals are impressive. Firms such as Cemex (cement), Embraer (aircraft), Techint (steel), Vitro (glass) and Odebrecht (construction) are world-class enterprises that derive the major portion of their sales from business outside their

requirements to aid small financial institutions. Peru has announced a \$3.2 billion spending package for infrastructure and anti-poverty projects, and Chile will allocated \$850 million in credits to small business.

home country. Their supplier base is huge, encompassing hundreds of small and medium-size local firms.

- **Commodities.** Although the global recession has eroded the demand for Latin America's agricultural, mineral and natural resources exports, this is but a temporary condition. The region's competitive advantage in these sectors has not waned, and when recovery does come, Asian countries especially will turn to the Americas for foodstuffs such as soybeans and raw materials, such as iron ore, for their manufacturing sector.

- **Strong consumer demand.** Consumer-driven growth has been the key noncommodity economic driver for the region, especially for larger markets such as Brazil, Mexico and Argentina. Economic stability, tariff reduction and a low inflation environment have been especially beneficial to the working poor who have swelled the ranks of the consumer class. There is no reason to believe this will not continue.

- **Diversification.** The days of one- or two-crop economies exporting to a singular market are long past. Product and services diversification to multiple markets are a growing phenomenon. For example, Colombian flower and coffee exports reign supreme, but ceramic goods, apparel, furniture and measuring instruments have a growing presence in the markets.

- **Remittances.** Although slowing, remittances grew by 1.5 percent in 2008, reaching \$67.5 billion, and the strengthening dollar has been an added boon. While it is true that Latin immigrants in housing and construction jobs have been especially hard hit — some even returning home — most know that when economic recovery comes, it will be here first. Therefore, these workers want to be positioned to seize the new employment opportunities.

- **Investment opportunities.** Even in a worldwide recession, investment opportunities in Latin America abound — franchising, infrastructure, telecommunications and healthcare, to name but a few. Firms that have been in the market for a long time and have done well are in it for the long haul, and they will continue to invest.

Today's global economic recession will be deeper and longer than those of recent times. However, when recovery comes, it will occur first in the United States. Our neighbors to the South should be well-positioned to contain the fallout of the crisis and take advantage of the plentiful opportunities before them to bounce back and put themselves on a growth trajectory — one that brought them five years of uninterrupted growth prior to the current financial downturn.

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