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When stable growth isn't enough

A recently published Inter-American Development Bank (IDB) report[1] puts its finger on an economic conundrum affecting Central America and the Dominican Republic (known as the CADR sub-region). These countries appear to have achieved admirable macroeconomic stability and steady growth, certainly relative to the rest of Latin America. But they don't really seem to be developing. Why?

Admittedly, the CADR group is diverse and the problems of relatively affluent Panama and impoverished Honduras are quite different. But to the extent that it is possible to generalise about the sub-region, the IDB highlights a puzzling fact. This is that good levels of growth do not really seem to have been transforming the local economies. They grow, but broadly speaking, they stay the same. There appears to be little traction on underlying problems like inequality of income and poverty.

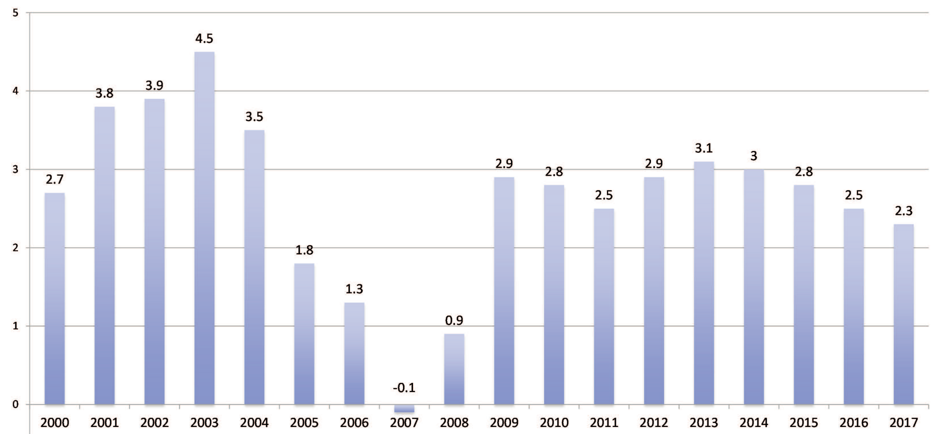
In many ways CADR has registered impressive performance. According to the IMF the sub-region will have registered GDP growth of 3.9% in 2017 and 3.8% in 2018, above global growth over the same two years, which was 3.4% and 3.6%. Average inflation is well under control (3.6% is expected this year). The external environment is supportive. International commodity prices (particularly for key exports such as sugar, coffee and bananas) have stabilised at broadly favourable levels. CADR is dependent on imported oil: prices for that commodity have recently rebounded but remain 30%-40% below pre-2014 levels. Export demand from the US will remain strong. US unemployment, including the Hispanic unemployment rate, is at historic lows. This augurs well for the volume of remittances sent home by expatriates back to CADR countries.

So why worry? For at least three types of reasons, the report suggests. First, the region's fiscal accounts remain unbalanced meaning that overall public debt levels continue to rise. Second, there is a relatively high level of uncertainty about the future that could worsen the short- to medium-term outlook. Third and perhaps most importantly, the countries of the sub-region have idiosyncratic structural problems, which are holding them back.

According to the IDB fiscal performance has improved a little. Some shortcomings in tax collection have been corrected but there are continuing social demands pushing up public sector spending. The average fiscal deficit in 2010-2014 was 2.9% of GDP, and is expected to have fallen to 2.3% in 2017. Countries need to build up a fiscal buffer to deal with future economic downturns. Yet the report warns "Given a lack of political agreement, no major fiscal changes are foreseen, and we would expect a continued upward trend in fiscal deficits and public debt, putting upward pressure on interest rates, which would have adverse repercussions on economic growth."

CADR fiscal deficit still limits room for maneouvre

Fiscal deficit as % of GDP, Central America and Dominican Republic

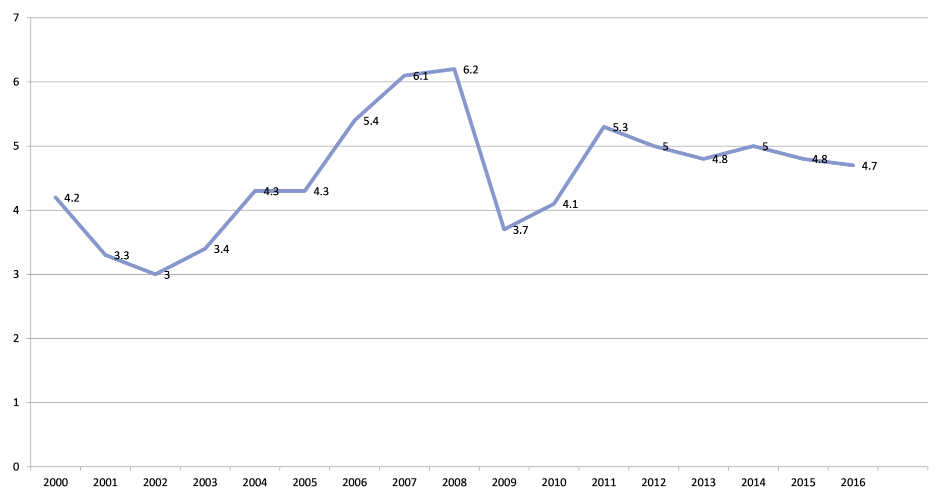


Source: *IDB*

There are various sources of uncertainty in the region. One is the growth of protectionist sentiment, particularly in the US. The report says an "extreme scenario" might involve the US ending the CAFTA-DR free trade agreement, which would trigger a 13% reduction in trade, the potential loss of 1.8m jobs, and a reduction in annual GDP growth rates of 0.5 of a percentage point. On the other hand other IDB research suggests that the effects of US protectionism could be reversed if the sub-region expands its presence in other markets, including boosting intra-regional trade. The IDB notes that the basic 'package' of export commodities has not substantially changed for the last three decades. On the plus side however, foreign direct investment (FDI) has remained relatively strong (4.7% of GDP in 2016), effectively financing the region's current account deficit.

CADR FDI funds the current account deficit

Foreign Direct Investment as % of GDP, Central America and Dominican Republic



Source: *IDB*

Another extreme scenario – the deportation of all CADR migrants from the US – would reduce the flow of remittances and cut annual GDP growth by 0.6%. Less extreme, the expected gradual tightening of US interest rates could also have a negative impact on growth, since public and private CADR debt has continued to climb. Finally, there could be adverse economic shocks from natural disasters.

In terms of structural economic issues, the report says that by global standards it has proven difficult for Latin America as a whole to convert economic growth into poverty reduction, but it has been even more difficult for the CADR countries to do the same thing. In 2000-2017, per capita income in Latin

[1]Inclusive Growth: Challenges and Opportunities for Central Ame4rica and the Dominican Republic

America grew by 1.8% and there was a 13 percentage point reduction in poverty (the proportion of the Latin American population living in poverty fell from 43.8% to 30.7%). But in the CADR sub-region per capita growth was higher, at 2.3% and poverty reduction was lower, at 12.1 points (down from 51.8% to 39.7%). The report concludes that the sub-region's growth elasticity of poverty is a third less than that of Latin America. One reason for this is that CADR had particular difficulty creating new employment in the formal sector. In the 17 years to 2017 Latin America increased the proportion of the workforce in formal jobs by 6%, while CADR did so by only 3% (despite the fact that CADR was relatively unscathed by the global crisis of 2008/2009).

This poor progress on poverty reduction can in turn be attributed to a number of factors. They include the high level of informal employment and gaps in the alignment of available human capital and emerging productive opportunities. Although not specifically mentioned, it is clear that poor governance, corruption, and high crime rates must also have an impact. The report examines issues of market access and regional financial integration as ways of increasing productivity. A chapter focuses on the shortcomings in education systems. The IDB also cites the impact of inadequate infrastructure. As an example, it notes that the average speed of freight travelling from the Mexican border to Panama City is only 17km per hour – not just a reflection of poor road quality, but also of long delays in border crossings and customs checks. Better regional integration could make a significant contribution. According to separate IDB research, completing the architecture of regional trade agreements might boost total trade by 56% and add 1.2 percentage points to GDP over the next 12 years.

ArcelorMittal still committed

Despite uncertainty over US steel tariffs, ArcelorMittal, the world's largest steel producer, said it was still committed to investing US$1bn in a new production line in Mexico. The proposal is to build a new hot strip mill with capacity to produce 2.5m tonnes per year of flat-rolled steel. However, there was no immediate comment about the impact of possible US tariffs from Mexican company Ternium, which announced plans to invest US$1.1bn in a new facility late last year.

SPECIAL FOCUS

TRADE AGREEMENTS I

Difficult Nafta outlook

The seventh round of Canada-Mexico-US talks on the renegotiation of the North American Free Trade Agreement (Nafta) came to an end on 5 March amid conflicting signals. While talks on local content rules in the automobile industry – one of the most difficult issues – were set to continue separately, US President Trump's sudden threat of imposing across-the-board tariffs on steel and aluminium imports introduced a new set of obstacles.

Although the outcome of Nafta renegotiation is still hard to predict, the latest developments are consistent with a scenario in which the talks drag on, past the end of March (the original, informal deadline), and past both the Mexican presidential election in July and the US mid-term congressional elections in November. That means a Nafta deal will not be done until 2019 at the earliest. Trump may see himself benefiting from a delay. He may interpret the yes/no uncertainty it generates as giving him the political initiative ahead of the November mid-terms; it also discourages companies from investing in Mexico during the interregnum. In February the US president said he was leaving things "a little bit flexible" and that there was "no rush" to conclude a deal before the Mexican presidential elections on 1 July. In this, Mexico's presidential candidates may agree: kicking the ball forward to 2019 gives whoever gets elected much more of a say in the final outcome.

All parties were relatively tight-lipped about the Mexico City talks: unusually, there was no formal tripartite statement when the round ended on 5 March. But automobile industry rules of origin remain one of the big stumbling blocks, with Mexico and Canada wanting to stick with the existing 62.5% North American content rule, while the US wants to raise that to 85%,

with a minimum 50% of specifically US origin. The big headline was generated by Trump's announcement on 1 March that he was considering imposing an across-the-board 25% tariff on steel imports and a 10% tariff on aluminium imports into the US. This lurch towards protectionism caused major concern among US trade partners and within the Republican Party itself. Most US steel imports come from Canada (16% of the total last year), Brazil (13%), South Korea (10%), and Mexico (9%); other suppliers include Russia, Turkey, and Japan. In a typical Trump negotiating ploy, the president then said Canada and Mexico could be exempt from the tariff if they were to agree to a "new and fair" Nafta deal. Mexican economy minister and Nafta negotiator Idelfonso Guajardo said his country "shouldn't be included in steel and aluminium tariffs", adding, "It is the wrong way to incentivise the creation of a new and modern Nafta."

TRADE AGREEMENTS II

Chile keeps the TPP in play

Many thought the ambitious 12-country Trans Pacific Partnership (TPP) trade deal was dead, after President Donald Trump, citing his 'America First' policies, pulled the United States out of the group in January 2017. But reports of its death were exaggerated: at the time of writing it was set to be signed by the 11 remaining countries on 8 March in Santiago de Chile, under a new name: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP – also known as the TPP-11).

The big headline about CPTPP is that multilateral trade agreements may continue to grow, and remain attractive to Latin American countries, even if the US persists in its current turn away from multilateralism and in the direction of protectionism. That the TPP was kept afloat after US withdrawal owes much to the efforts of Chile. The government of outgoing President Michelle Bachelet sought to rally the remaining 11 TPP members (Australia, Brunei, Canada, Chile, Japan, Mexico, Malaysia, New Zealand, Peru, Singapore, and Vietnam), inviting them to a planning meeting in Viña del Mar in March of last year.

At this point a 'minimalist' approach was agreed. Rather than re-start laborious negotiations from the beginning, the 11 countries agreed to strip out provisions that had been suspended or changed at the request of the United States, prior to its decision to abandon the project entirely. As it stands, the deal will now reduce tariffs on trade in both goods and services across a group of economies representing 13% of global GDP (had the US remained in, that would have been 40% of global GDP). One change is in the treatment of pharmaceuticals. The US had insisted on increased protection for pharmaceuticals-related intellectual property (IP), in a way that many other countries thought was excessive, and that would have ended up increasing the cost of medicines. This has now been stripped out. There were some difficulties over other clauses, with negotiations held up in November as Canada sought greater protection for its cultural industries. But this did not prevent agreement on a final text being reached on 23 January of this year.

The agreement now covers services, investment disputes, government procurement, intellectual property, protection of the environment, transparency, and anti-corruption standards. New Zealand trade minister David Parker has stressed the importance of the TPP-11 deal as a counterweight to global protectionist sentiment. "CPTPP has become more important because of the growing threats to the effective operation of World Trade Organisation rules," he said in February. Although Trump had earlier suggested at the World Economic Forum in January that his government might consider re-joining if a better deal was on offer, Parker said that was "very unlikely". Both Canada and New Zealand have published impact studies showing CPTPP will bring benefits to their economies in terms of increased exports and employment.

A third trade agreement: Mercosur-EU

Another round of the long-running negotiations on a Mercosur-European Union free trade agreement held in Asunción, Paraguay, ended without a breakthrough on 2 March. Paraguayan foreign minister Eladio Loizaga said he believed a full agreement could be finalised within three weeks' time. EU negotiator Edita Hrdá said discussion on "four or five" subjects had yet to be concluded.

Chile has been a long-standing advocate of free trade. It currently has 26 free trade agreements (FTAs) with 64 countries that represent 85% of global GDP and 60% of the world's population. Chilean diplomats and negotiators played an important role in renegotiating the TPP in little over a year – a major achievement considering the fact that multilateral FTAs can take a lot longer to agree. The CPTPP will be the largest multilateral FTA ever signed (it will require ratification by the legislatures of the member countries, meaning it will not come into effect until 2019 at the earliest). For Chile and the two other Latin American participants – Mexico and Peru – it provides improved access to Asian markets. It also opens up interesting future possibilities for Latin America. The three Latin American CPTPP members are also members of the Pacific Alliance, along with Colombia. There is therefore a possibility that Colombia might at some point accede to CPTPP. But the Pacific Alliance countries are also seeking closer relations with Mercosur (Argentina, Brazil, Paraguay and Uruguay) so some form of convergence may be possible there too.

REGIONAL ECONOMY REVIEW

MEXICO

Weaker fourth quarter

Although the Mexican economy has shown itself to be resilient, final data for the fourth quarter of 2017 was disappointing and most analysts think high levels of uncertainty will continue to weigh down on growth in this electoral year.

Final figures for fourth-quarter GDP were revised down on the preliminary numbers. On a quarter-on-quarter basis GDP grew by 0.8% (down from the preliminary estimate of 1.0%). On a year-on-year basis growth was 1.5% (down from the preliminary 1.8%). As a result of this more muted Q417 performance, growth for the full calendar year was 2.0%, down on the 2.9% rate registered in 2016, and the slowest growth rate seen in Mexico since 2013. Benito Berber of Nomura Securities told *Reuters* news agency that the final numbers for the quarter were "a big miss" adding "The Mexican economy seems to be slowing down". Alberto Ramos of Goldman Sachs said, "Activity proved more resilient than expected…but there are now a number of signs that the forward momentum may be softening." A breakdown of the numbers for Q417 showed weakness in the oil industry (where production is still on a downward trend, despite recently announced investments by foreign companies). The industrial sector contracted by 0.1%, while services were up by 1.0% and agriculture gained 2.1%.

One of the complicating factors has been inflation. Since late 2016 Mexico's more difficult relations with the United States, and fears that the Trump administration could terminate Nafta, have put pressure on the Mexican peso, with a pass-through effect on domestic inflation. The annual inflation rate rose to 6.8% in December, easing back to 5.5% in January. Against this background, the central bank (Banco de México or Banxico) raised interest rates by 25 basis points to 7.5% on 8 February, and left the door open to potential further tightening. It gave three reasons for the move: to counter high inflation, to anchor inflation expectations, and to keep pace with the US Fed. Analysts felt the move was perhaps a little overdone, and attributed to the desire of new Banxico head Alejandro Díaz de León to establish a reputation as a potential hawk. The official statement said Banxico policy would in future be "opportune" and "firm". The aim is to bring inflation back down to the target of 3%, plus or minus one percentage point. On 28 February Banxico said it was keeping its growth forecasts unchanged at 2%-3% in 2018 and 2.2%-3.2% in 2019. It noted that the balance of risks to growth remained on the downside, mentioning possible delays in the renegotiation of Nafta and potential volatility in financial markets in the run up to the July presidential elections.

Business worries over elections

While some members of the Mexican business community think talk of high political risk and uncertainty associated with this year's presidential race is exaggerated, others are clearly wary of the economic policies of the main candidates. On 26 February Juan Pablo Castañón, president of Consejo Coordinador Empresarial (CCE), said the business lobby was not supporting any candidate in particular, but was ready to work with whoever was elected. Without mentioning any names, Castañón criticised policy proposals linked to the candidates currently in first and second place, according to the opinion polls: the left-leaning Andrés Manuel López Obrador (AMLO) and the more rightwardly inclined Ricardo Anaya respectively. "When we hear talk of exaggerated levels of subsidy without a focus on competitiveness, we get worried. When we hear talk that the government wants to run companies again, we get worried, because we have now gone beyond those situations," Castañón said. It was not clear exactly what subsidies he was referring to, but AMLO has spoken of using government funds to stimulate agriculture and improve access to education. The CCE also seemed unimpressed with Anaya's promise to consider introducing a universal basic income programme as a way of fighting extreme poverty.

ARGENTINA

Things to worry about

Since taking office in December 2015 the government of Mauricio Macri has made gradual progress reducing inflation, bringing the fiscal deficit under control, and stimulating economic growth. But is it enough? There are still reasons to worry about Argentina. Comparatively speaking, the country stands out as the least-well prepared to deal with any external shocks.

According to national statistics institute Indec, the Argentine economy grew by 2.8% last year, after contracting by 2.3% in 2016 as the new government sought to tackle some of the distortions in the local economy. In his speech to the opening session of congress on 1 March President Macri struck an optimistic note, arguing that "the worst is over" and that future prospects are good. His administration, he said, had been criticised by some for going too slowly, and by others for going too fast. Many analysts say that on balance important progress has indeed been made. But there remain significant causes for concern.

One critical assessment has come from Edward Glossop in a research note on the external vulnerabilities of regional economies for consultancy Capital Economics. He starts by looking at the size of current account deficits relative to GDP, noting that experience to date shows that deficits larger than 4%-5% of GDP have proved unsustainable for most emerging market economies. For the majority of countries in the region, current account deficits are now at their lowest level in the last decade, driven in large part by a compression of imports following the freewheeling days of the commodity boom. Average current account deficits are now about 2% of GDP. But Argentina has bucked the trend, with the deficit rising from just over 1% at the start of 2015 to around 4.5% in Q417. Glossop says this reflects unbalanced economic growth and poor competitiveness caused by high inflation and an overvalued currency.

Not just the size of the current account deficit, but a country's ability to fund it, is important. A good sign across the region is that most current account deficits are covered by foreign direct investment (FDI) inflows that tend to be less volatile than investment flows via equity portfolios. But here too Argentina stands out: Net FDI is only about 1% of GDP, with the bulk of the current account deficit covered through shorter-term equity flows. At present these reflect the market's confidence in what the government is doing, but

the point is that if confidence drops off, for whatever reason, they can reverse very quickly. Finally, Glossop looks at the gross external financing requirement (GXFR). This measures the current account deficit plus maturing foreign debt obligations over the next year, as a proportion of existing foreign currency reserves. The aim is to get a sense of how well placed a country will be to meet its obligations in the event of the kind of "sudden stop" in capital inflows that might be associated with any global economic shocks. While Peru, Brazil, and Mexico are all relatively comfortable with GXFRs of under 60%, Colombia is a little higher (under 80%) and Argentina looks dangerously high at 216%. Glossop's conclusion is that Argentina is "flashing red on most measures of vulnerability", and is the country in the region that would be most exposed to any new bout of global financial turbulence.

Symptoms of that vulnerability show up in different ways. One notable feature is Argentina's apparent inability, so far, to fire-up export-led growth. Exports grew by only 0.9% last year, while imports surged by 19.7%, generating the country's largest-ever trade deficit (US$8.51bn). A drought early this year affecting the soya and maize harvests may herald another weak performance in 2018. Analysts fear that the large inflow of foreign lending – considered necessary after the country's long post-default exile from international capital markets in 2002-2015 – is having unintended adverse consequences, creating an overvalued currency which erodes competitiveness. This has been a recurring problem in Argentina, and is known as the *atraso cambiario*. According to data compiled by the Observatorio de la Deuda Externa (ODE-UMET) in 2016-2017 Argentina issued no less than US$132.9bn worth of public debt, with debt servicing expected to rise from 6.6% of GDP in 2018 to around 7% in 2019.

BRAZIL

Pension reform won't go away

After around 18 months of effort the government of President Michel Temer has finally abandoned all attempts at pension reform. But the problem won't go away: with elections due in October Brazilian politicians are going to find they can't avoid the awkward subject.

For years the elephant in the room of Brazilian politics has been pension reform. It is widely accepted that the pay-as-you go state pension system is too generous for some privileged groups of workers, while completely ignoring others. Above all else, it is eye-wateringly expensive and financially unsustainable. The IMF calculates that Brazilian public and private pension payments represent 11.3% of GDP, one of the highest rates in the world and well above the Organisation for Economic Co-operation and Development (OECD) average of 7.8%. As the population ages, and in the absence of any reform, it expects that proportion could increase to 26% by 2050, driving up public sector debt.

The average age of retirement in Brazil is 57, also well below the OECD average of 64. Accordingly, the Temer government came up with a plan to impose a minimum retirement age of 65 and adjust paying-in amounts and rules, so as to achieve fiscal savings. The original version of the plan would have saved around US$254bn over the first ten years after its introduction, reducing the fiscal deficit by around 2.2 percentage points of GDP. But in an attempt to gain congressional support the proposals were diluted in various ways, with the expected savings coming down by between 20% and 40%. By late last year it was already evident that even if approved, the Temer pension reforms would not really fix the problem: the next government, due to take office in January 2019, would probably have to make further adjustments.

In the end, however, Temer failed to get support for even the watered-down version of the reforms. His reform package came in the form of a constitutional amendment, which required three-fifths support in congress. The intention had been to put it to a vote in the chamber of deputies in February, where it needed the backing of 308 of the 513 deputies. But the support just wasn't there. In what some see as a face-saving move, in February Temer also signed a decree ordering the army to take charge of security in Rio de Janeiro state. Current regulations prohibit amendments to the constitution when a military intervention is in progress, effectively blocking consideration of pension reform. "This was a very unpopular proposal and it was sure to be defeated," commented André Cesar of Hold, a consultancy, adding "So instead of putting it to a vote, it was more intelligent for the government to change the agenda: intervention was the solution."

As expected, credit rating agencies were disappointed. Samar Maziad of Moody's Investor Services described the failure of pension reform as "a credit negative development that will severely restrict the authorities' ability to comply with the government spending ceiling in coming years". Fitch cut Brazil's credit rating to BB- from BB, pushing it further down into junk status. However, Brazil's equity markets were unmoved, with the Bovespa remaining relatively buoyant.

Initial indications are that most candidates in the race for the October election now realise they can't afford to ignore pension reform and will have to make proposals on the subject. Centrist presidential hopefuls include finance minister Henrique Meirelles (Social Democratic party, PSD), lower house speaker Rodrigo Maia (Democrats, DEM), and Sao Paulo governor Geraldo Alckmin (Brazilian Social Democracy Party, PSDB). They have all said that if elected they will support some version of pension reform in the future (as finance minister, Meirelles of course was the main author of the Temer plan).

On both the centre left and the left, even among parties that opposed reform, there is also recognition that something needs to be done. Former senator Marina Silva (Sustainability Network, Rede) has said she would support a minimum retirement age of 65 for men and 62 for women. She criticised the "easy narrative" opposing pension reform, given that it was necessary, something that all previous governments had come to realise. However, she did criticise Temer's proposal that private sector workers should make 25 years of non-interrupted contributions to qualify for a pension. This, she said, was excessive given the high incidence of informal employment in the country.

The Partido dos Trabalhadores (PT), which once said it would oppose a reduction in workers' pensions in all circumstances and "even if pigs could fly", is now suggesting it would back a tax reform package to better finance social security programmes including pensions. Former PT minister Carlos Gabas has said a sliding scale based on age and contributions history could be used to determine the point of permitted retirement, in a way that contemplates an increase in the average age of retirement. Ciro Gomes (Democratic Labour Party, PDT) said he was not against reform but also suggested a variable minimum retirement age since working conditions in the arid and impoverished northeast of the country are much harsher than in the south.

Perhaps the least crystallised pension ideas have come from the main far-right candidate, Jair Bolsonaro (Social Christian party, PSC). He has criticised the proposed minimum retirement age of 65 and attempts to change retirement benefits for the military (Bolsonaro is a former army officer). One of his advisers, Paulo Guedes, has advocated private pension provision, but it is not known if Bolsonaro agrees with that. More generally, Bolsonaro has said Brazil's large social security deficit should be tackled by increasing taxes on large corporations, bringing in mining royalties, "cracking down on criminal groups" and ceasing the practice of incorporating bonus payments into public sector salaries.

After China, here comes 'Latindia'

A lot of comment in recent years has focused on the emergence of China as a major trade and investment player in Latin America, perhaps rivalling the traditional role played by the United States and Europe. But there is another big player on the horizon: India. A new report[2] by the Inter-American Development Bank (IDB) talks about the growing impact of what it calls 'Latindia'.

According to the report, trade between India and Latin America grew to almost US$30bn in 2016. For comparison, trade with China in the same year was around US$200bn. In fact, trade between Latin America and the Caribbean (LAC) and India is now roughly at the level LAC-China trade was at ten years ago. There does seem to be potential for significant growth. There are estimated to be some 50,000 Latin Americans employed by around 200 Indian companies currently operating in LAC. There are however only two trade agreements in place: one between Chile and India (reached in 2006), and another between the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) and India (signed in 2004). An agreement with Peru is under negotiation.

Latin American exports to India are not particularly diversified. Overall, only four products account for 85% of the region's exports to India. The top Latin American exports have been crude oil, copper ores and concentrates, soya, and gold and precious stones. The main LAC imports from India are other petroleum oils, motor vehicles, motorcycles, and medicines. The LAC countries as a whole have had a surplus in trade with India. Indian companies, on the other hand have invested in key sectors in the region, including hydrocarbons, pharmaceuticals, automobiles, agro-processing, engineering, textiles, chemicals, and electronics. The book value of Indian investment in Latin America is estimated at around US$20bn. But here too there are signs of concentration – nearly half of this investment is in only two sectors: telecommunications services and pharmaceuticals.

The report points out that, according to a Latinobarómetro survey, around 40% of Latin Americans have a good, or very good opinion of India. In countries where trade has been more intense, such as Mexico and Chile, that positive opinion increases to as much as 75%. The IDB sees LAC and India as sharing a positive view of international integration; each have dynamic middle classes, which means the two countries could benefit strongly from south-south cooperation. India, with a population of 1.3bn, offers Latin America an important opportunity to diversify its exports. India has 350m online users who are potential customers for Latin American goods and services. The Indian economy is expected to grow by an annual average of 7.8% over the next five years, overtaking China as the world's fastest-growing major economy. However, it is also true that India still has relatively high import tariffs, above the average for Asian economies. Tariffs on many agricultural products are five times higher than in China: reductions are expected.

Around 70% of Indian consumers are from low- and middle-income sectors, and 88% of the population suffers protein deficiencies – a statistic which suggests an important long-term opportunity for LAC food exporters, particularly as Indian living standards begin to rise. The challenge for Latin America will be to avoid becoming 'locked in' to Indian growth purely as a supplier of unprocessed raw materials and foods. Instead, there is a major opportunity to increase value added and processed products.

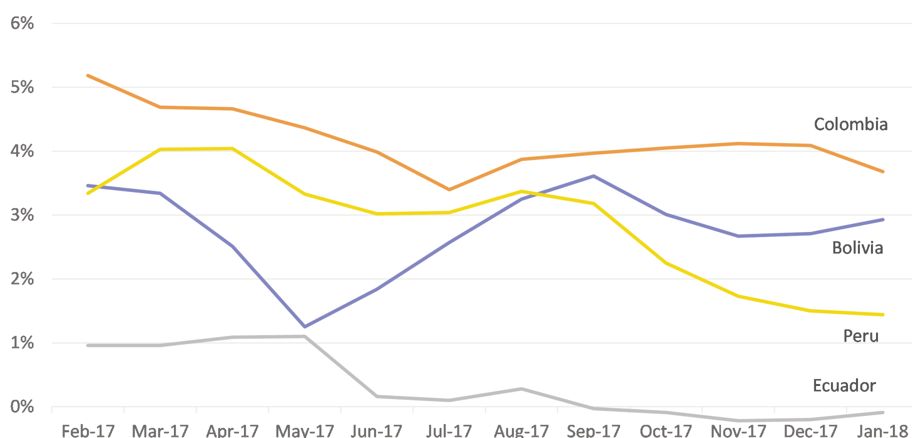
[2] *Latindia: The Future of Cooperation between India and Latin America*

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



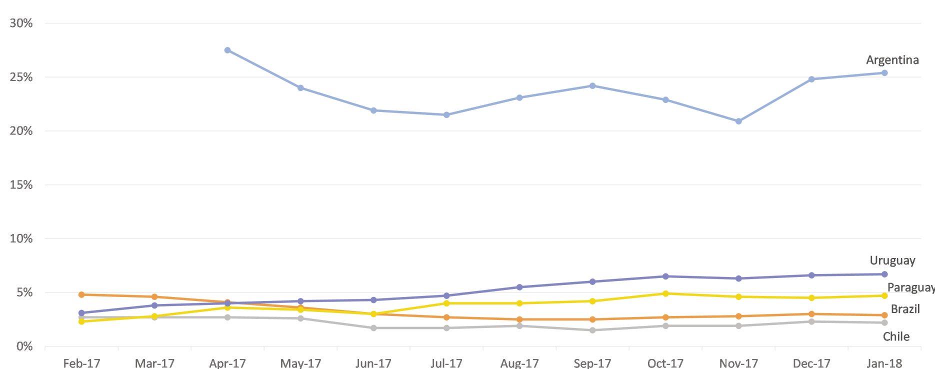
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth								
Quarterly figures are year-on-year growth								
GDP	**End 2017***	**2018 forecast***	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Bolivia	3.9	4	4.7	4.2	3.8	3.9	-	-
Colombia	1.8	2.6	1.2	1.6	1.2	1.3	2	-
Ecuador	1	1.3	-1.6	1.5	2.2	3.3	3.8	-
Peru	2.5	3.5	4.5	3	2.1	2.4	2.5	2.2
Venezuela	-9.5	-5.5	-	-	-	-	-	-
**Figures from the United Nations Economic Commission for Latin America & Caribbean December 2017*								
Quarterly growth based on figures from the local central banks								

BRAZIL & SOUTHERN CONE

Brazil & Southern Cone: Inflation rate (%)

Percentage variation (year-on-year)



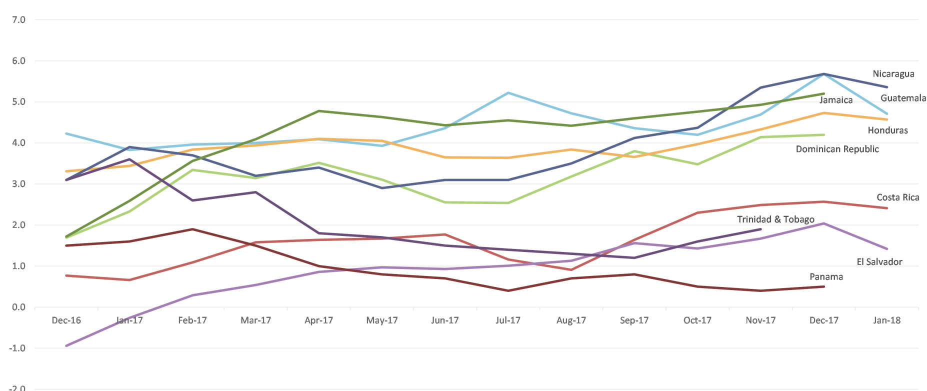
Southern Cone: GDP growth (%)							
Quarterly figures are year-on-year growth							
	End 2016 (from CEPAL August 2017)	**2017 (from CEPAL October 2017)**	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**
Argentina	-2.20%	2.40%	-3.70%	-1.90%	0.40%	2.90%	4.20%
Brazil	-3.60%	0.70%	-2.90%	-2.50%	-0.40%	0.30%	0.10%
Chile	1.60%	1.50%	1.80%	0.50%	0.10%	0.90%	1.50%
Paraguay	4.10%	4.00%	0.50%	-0.30%	3.40%	-2.40%	3.00%
Uruguay	1.50%	3.00%	N/A	N/A	4.40%	2.80%	2.20%
Annualised quarterly growth based on figures from local central banks.							

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

Percentage variation (year-on-year, selected countries, latest available data)

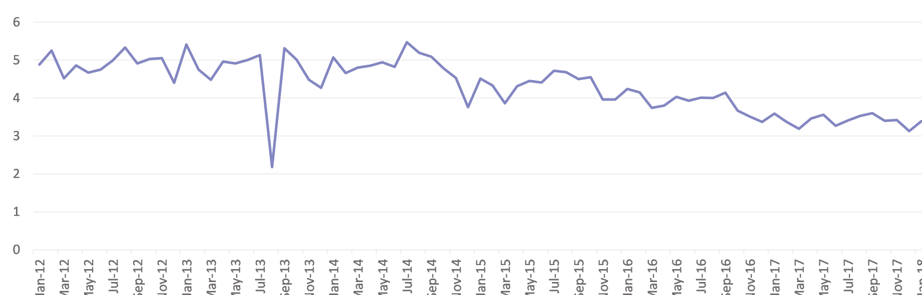


Central America & Caribbean, selected countries: GDP growth							
Quarterly figures are year-on-year growth							
GDP	**end 2017***	**2018 forecast***	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**
Costa Rica	3.9	4.1	4.5	4.1	2.9	2.7	2.8
Dominican Republic	4.9	5.1	5.8	5.9	5.3	3	3
El Salvador	2.4	2.5	2.4	2.6	2.3	2.3	2.4
Guatemala	3.2	3.5	2.6	3	3	2.3	-
Honduras	3.9	3.9	2.8	4.4	5.9	4.5	6.5
Nicaragua	4.9	5	4.5	3.8	6.6	4.3	-
Panama	5.3	5.5	4.7	4.5	6.2	5.4	5.4
Jamaica	1.2	1.3	2.1	1.4	0.1	-0.1	range of 0.5%-1.5%
Trinidad & Tobago	-2.3	0.5	-12.1	-6.9	-6.9	-3.2	-
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*							
Quarterly growth based on figures from the local central banks							

MEXICO & NAFTA

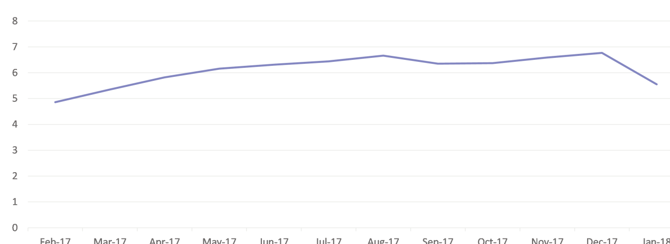
Mexico's unemployment rate

Economically active population



Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)

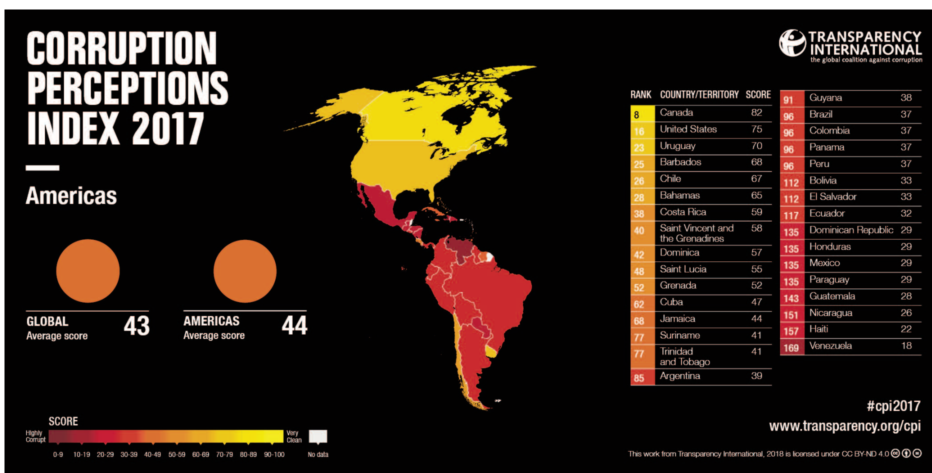
Source (all Mexico Highlights data): *National Statistics Institute (Inegi)*

Little progress on corruption

Anti-corruption lobby group Transparency International (TI) published its annual Corruption Perceptions Index (CPI) on 21 February. This was the 25th edition of the index, covering developments in 2017.

As in previous years, the report gives each of 180 countries a perceived public sector corruption score ranging from zero (very corrupt) to 100 (very clean). Globally, TI is fairly gloomy about the progress that is being made. It says that the majority of countries are “moving too slowly in their efforts” to reduce corruption. Over two-thirds of the countries surveyed scored below 50; the global average was a score of 43. This year the report highlights attacks on the press and non-governmental organisations (NGOs), pointing out that countries which do least to protect these watchdog bodies also tend to have the worst rates of corruption. In 2017 the world’s least corrupt countries included New Zealand (with a score of 89) and Denmark (with a score of 88). The most corrupt were identified as Syria (scoring 14), Yemen (12) and Somalia (9).

In Latin America and the Caribbean, TI says that despite “great strides” in the battle against corruption, including high-profile investigations and pro-active civil society campaigns on the issue, most countries continue to score poorly. There have been new anti-corruption laws in Chile, the Bahamas, Guyana, and Jamaica. Major anti-corruption investigations continue in Brazil, Ecuador, Peru, Guatemala, and Panama. Yet most of these countries still lack what TI calls “overarching policies” to address the historic and structural causes of corruption. As a whole the Americas scored 44, just above the global average, but that included high scoring countries like Canada (ranked eighth globally) and the United States (16th). The best performing countries from the Latin American and Caribbean sub-region were Uruguay (ranked 23rd globally), Barbados (25th), Chile (26th) Bahamas (28th) and Costa Rica (38th). The worst performing were Guatemala (143rd globally), Nicaragua (151st), Haiti (157th), and Venezuela (169th).



RANK	COUNTRY/TERRITORY	SCORE
8	Canada	82
16	United States	75
23	Uruguay	70
25	Barbados	68
26	Chile	67
28	Bahamas	65
38	Costa Rica	59
40	Saint Vincent and the Grenadines	58
42	Dominica	57
48	Saint Lucia	55
52	Grenada	52
62	Cuba	47
68	Jamaica	44
77	Suriname	41
77	Trinidad and Tobago	41
85	Argentina	39
91	Guyana	38
96	Brazil	37
96	Colombia	37
96	Panama	37
96	Peru	37
112	Bolivia	33
112	El Salvador	33
117	Ecuador	32
135	Dominican Republic	29
135	Honduras	29
135	Mexico	29
135	Paraguay	29
143	Guatemala	28
151	Nicaragua	26
157	Haiti	22
169	Venezuela	18

There were some big movements in the ranking. Despite its high-profile corruption investigations such as Lava Jato, Brazil plummeted 17 positions relative to the preceding year to rank 96th, while Argentina moved up the table by 10 positions to rank 85th. This is the first time in two decades that Argentina has been perceived as less corrupt than Brazil. Mexico also dropped 12 places to 135th. Writing in newspaper *El Financiero*, Mexican journalist Benjamín Hill points out that the CPI is really a synthetic index, a combination of measures produced by a range of different sources (including organisations such as the World Economic Forum). As a result, it is difficult to attribute year-to-year changes to specific positive or negative events. He argues that the Mexico’s ranking “doesn’t really tell us anything that we didn’t know already: that Mexico has a big corruption problem, broadly comparable to other countries at a similar level of development”. Nor does the CPI tell policy makers what they should be doing. Despite those limitations, he notes that publication of the index remains the single annual event which best focuses attention on the issue.

COLOMBIA

Focus on future policies

Four hopefuls are leading the race to become the next president of Colombia. Here we present a snapshot of some of their economic policies.

The relative positions of the four front-runners are likely to ebb and flow in the opinion polls as the May election gets closer. According to one poll (by Centro Nacional de Consultoría) in late February, the left-wing former mayor of Bogotá Gustavo Petro was in the lead with 22% support, followed by the centre-left independent Sergio Fajardo with 16%. Iván Duque of the right-wing Centro Democrático was in third place with 15%, followed by centre-right former Vice President Germán Vargas Lleras, with 8%. The apparent electoral strength of the left is unusual in Colombia, where conservatives traditionally have done well, but the race is still wide open.

While Duque and Vargas Lleras can be said to represent a continuation of broadly conservative and market friendly policies, much of the focus has been on the economic implications of a Petro presidency. Critics have claimed the former guerrilla will attack business, expropriate private property, and bring Venezuelan-style chaos to Colombia. Petro says he will do none of those things: the candidate points to his record as mayor of Bogotá (2014-2015) when the city's debts were reduced and it retained its AAA credit rating from Fitch. Petro has tried to turn the tables over the fear of Venezuela. The problem, he says, is not that Colombia may go the way of Venezuela, but that the two countries are already too alike. They are both excessively dependent on high carbon extractive industries (oil and coal in the case of Colombia, oil alone in the case of Venezuela). This subjects them to the 'Dutch disease' – a lack of competitiveness and economic diversity. Petro says he will seek to diversify Colombia in a more environmentally-friendly direction, developing agriculture and manufacturing. One way of doing this will be to tax unused agricultural land. A number of analysts remain sceptical of how Petro would finance his ambitious plans to realign the Colombian economy.

Fajardo, a mathematician and former mayor of Medellín (2004-2007) has said his priorities will be to tackle corruption and develop education. He promises social and economic policies based on "clear rules, open doors, and transparency". Education spending will increase by at least 10% per annum; the candidate says he will steer a middle course between "savage capitalism" on the one hand and "radical state control" on the other. He promises to create 1.5m new jobs during his four-year term in office. To fund his proposals he says he will seek tax reform to reduce corporate tax rates (some of the highest in Latin America) and to widen the scope personal taxation. From a wealthy background, Fajardo says it is right that the rich should contribute proportionately more to raising tax revenue. He also claims that reducing corruption will help boost revenue, arguing, "Each peso we take from corruption will be a peso we can spend on education."

Vargas Lleras says that if he becomes president he will seek to boost the country's annual growth rate to 5%, creating a total of 1.2m new formal jobs. He also promises tax reform that will be designed to increase the competitiveness of the Colombian private sector and reduce the corporate tax burden. Duque has concentrated much of his campaign on political issues, especially his party's opposition to the peace settlement signed by the outgoing government with the Fuerzas Armadas Revolucionarias de Colombia (Farc) guerrillas. However, he has promised much greater austerity in public spending and a reduction in corporate tax rates to not more than 27%-28%, which he says is the OECD average. He has also spoken of diversifying exports, reforming state-owned enterprises, and developing

capital markets. One eye-catching Duque proposal is to have six days a year when no VAT is charged on retail sales: this, he says, would allow shops to reduce inventory and consumers to benefit.

VENEZUELA

Introducing the crypto-petro fantasy

If President Nicolás Maduro is to be believed, his embattled government has just pulled off a master-stroke by launching the Petro, a crypto currency, which in a couple of days attracted over US$1bn worth of investments and placed the country in the technological vanguard of the 21st century. Unsurprisingly, not everyone sees it that way.

The government launched the Petro on 20 February. Officials said there would be a phased issue of 100m virtual Petro coins, each backed by one barrel of oil from the Ayacucho block (where reserves are estimated at 5.34bn barrels). Orders for an initial tranche were being sold in the period running up to 19 March at a reference price of US$60 a barrel, implying the total issue will be valued at round US$6bn (although prices for later tranches may vary). Maduro claimed that buy orders for the Petro totalled US$735m in the first 20 hours after its launch, rising to over US$1bn after the first two days. He said the new currency would allow Venezuela to counter economic sanctions imposed by the United States, commenting that "today a crypto-currency has been born to defy Superman who has not been able, and will not be able, to control us".

Few details of who have been buying the Petros were given, but Maduro said that 36% of purchases had been in US dollars, 15% in Euros, and 49% in other pre-existing crypto currencies such as Bitcoin and Ethereum. Before the launch, Carlos Vargas, Venezuela's new crypto-currency superintendent, had said the government was targeting investors in Qatar, Turkey, the Middle East, Europe, and the United States.

There was certainly a wave of what could be called 'Petro hype'. Government agencies including state oil company PDVSA were being authorised to accept payments in Petros and other crypto-currencies. Almost immediately after the launch the president said plans were in hand to launch a second crypto-currency, to be known as Petro Gold, which would be backed either by gold reserves in the Central Bank or by yet-to-be mined sub-surface gold deposits. Petro Gold would strengthen the Petro and enable Venezuela to fight back against the "economic war" waged against the country by the US government, as well as advancing the country's "monetary sovereignty".

There was also an announcement that Venezuela was opening its own crypto-currency school (based in Caracas and known as the Granja Laboratorio Petro School). Other countries are clearly interested in the Venezuelan experiment. Ahment Kenan Tanrikulu, a member of one of the political parties in Turkey's ruling coalition, said he was recommending that the country launch its own crypto-currency, to be known as Turkcoin. "The world is advancing toward a new digital system," he said, and Turkey "should create its own digital system and currency before it is too late".

But it is fair to say many analysts see the Petro as, at best, just another sovereign debt vehicle and, at worst, as an outright con. Whether it actually is a crypto-currency at all is open to debate. Most crypto-currencies are traded via decentralised systems, using 'open ledger' blockchain technology based on transparent operating rules. The lack of a central authority is one of their attractions and one reason why a certain type of investor trusts them. In contrast, the Petro is very clearly controlled by the Venezuelan government, which has a

notoriously poor financial record: the value of the existing Bolívar currency has been eroded by hyperinflation and the country is in partial default. There is little transparency about the operating platform (indeed official documents are contradictory – some say it will use Ethereum and others NEM as its technical platform); and the government is notoriously opaque about all economic data (it does not even publish data on the rate of inflation).

There are also question marks over the underlying link to oil or gold reserves. Sean Walsh, founder of a US based crypto-asset investment company, Redwood City Ventures, commented "Rather than buying a crypto currency based on gold, I'd just go and buy the gold. Gold is a physical thing that you want to be able to hold in your hands, because that's the point." Equally the "oil guarantee" underpinning the Petro is dubious, since each barrel is deep under the ground and very far from being monetised. In fact, developing the Ayacucho block will itself require billions of dollars and many years before the oil could begin to flow. Kenneth Rapoza, an analyst based in the US, noted that Maduro's claims should be taken with caution, given that the president is also on record saying that the ghost of his late predecessor Hugo Chávez came to him in the form of a little bird. In an article for *Bloomberg* Matt Levine argued, "The Petro is not a currency, crypto or otherwise. But a way to raise hard currency externally now that Venezuela is cut off by sanctions from accessing the international debt market. So, the petro is just a way to hide new international debt behind a thin screen of blockchain."

In Brazil, there have been reports that national development bank BNDES is considering launching its own crypto-currency later on this year. Carlos Costa, the bank's chief of budget and planning, has been quoted saying "We will be the first development bank in the world to use blockchain technology." Blockchain technology can be used with any currency or unit of measurement, and does not specifically require the launch of a crypto currency, but Thiago Aragão of Brasilia-based consultancy Arko Advice has confirmed that BNDES "wants to use crypto currency for transactions that involve payments to borrowers".

Fintech on the rise

While there will be hits and misses, the Petro is not the only experiment under way in the field of crypto currencies and alternative payments systems in Latin America. The financial technology, or fintech, sector is expanding rapidly in a number of countries. Sometimes this happens amidst a crisis and meets a real need. Venezuelans struggling to survive hyperinflation and food shortages will not be helped by the Petro or the Petro Gold. But, according to Widereven Villegas, who washes around 30 cars a day in Caracas for the equivalent of 50 US cents a time, they do use all sorts of mobile phone-based payments systems. None of Villegas' customers can pay cash, which is not surprising given that the maximum daily cash withdrawal from an ATM is now 10,000 Bolivars, around 4 US cents at the black market rate. "I accept transfers. I have Tpago, Vippo, and almost all the applications out there," Villegas told *Reuters* news agency in February. Caracas-based Vippo says it has had a thirty-fold increase in registered users in the last year. Another application, Citywallet, started enabling online parking payments in Caracas, and has now spread to other areas and begun operating in Chile.

CHILE

Weak growth, but building in confidence

Although official full-year GDP data for 2017 is not available from the central bank until late March, the authorities have given preliminary indications of the results, suggesting a slight acceleration from 2016, but with the overall pace of growth remaining weak. The minister of finance, Macarena Lobos, stated in late February that fourth-quarter GDP growth came in at 2.9% year-on-year, representing an acceleration from 0.1% in the first quarter, 1% in the second quarter, and 2.2% in the third quarter. This would imply full-year growth of just under 1.6% year-on-year, marginally higher than the 1.5% in 2016.

Although the preliminary annual growth rate is disappointing, the trajectory of growth gives significant cause for optimism. The acceleration over the course of 2017 is likely to be explained by rising mining output: the monthly economic activity index, which is a broad proxy for GDP growth, shows that mining activity was posting double-digit falls in the first quarter of 2017, but by the end of the year was growing by around 5% year-on-year. Non-mining activity shows a similar, if less marked trend, with output picking up from 1.5% early in the year to over 3% by the end of the year. The full break-down of non-mining results is not yet available, but other leading retail and manufacturing indicators point to an improving picture in these areas, reflecting both firmer domestic demand (affecting retail) and external demand (lifting manufacturing). The fact that the monthly economic index has continued to

improve in early 2018 is also a positive sign: overall activity rose by 3.7% year-on-year in January, representing the firmest growth since late 2013.

Copper prices set to lift growth in 2018

This sense of optimism is one that is shared by the international community, with the Organisation for Economic Co-operation and Development (OECD) stating that in late February that they expect GDP growth to rebound to 2.9% in 2018. The IMF is slightly more circumspect, but its projection of 2.5% is still relatively robust. A rise in international copper prices is a key factor behind Chile's improved fortunes. After standing at around US$2.50/lb at the start of 2017, copper prices rose to well over US$3/lb in the fourth quarter of the year, where they have remained so far during 2018. This is likely to incentivise exploration, lifting export volumes and fixed investment, but higher prices will also feed through indirectly into stronger government and private consumption.

Greater business confidence following the victory of Sebastian Pinera in last December's presidential election is also likely to support stronger growth. A central bank survey conducted in early February indicated that the government's business-friendly policy approach – which includes pledges to cut the rate of corporation tax – would engender an increase in private investment by firms already operating in Chile. A monthly business confidence index compiled by ICARE and the Universidad Adolfo Ibanez substantiates this trend, with confidence rising sharply in both January and February. The index establishes a level of 50 as a neutral line, with readings above this indicating an improvement in confidence levels and readings below indicating a fall in confidence. Index results oscillated within a range of 42 to 49 over the course of 2017, ending the year at 44, but rose to 53.8 in January and 57.4 in February.

Monetary policy is set to remain on hold

The improving GDP picture indicates that further monetary policy easing will not be necessary in order to bolster the rate of growth. The central bank cut the benchmark interest rate by a total of 100 basis points in the first half of 2017, but has kept the rate on hold at 2.5% since then. In its most recent meeting in mid-February, the bank's monetary policy committee stated that it had considered another 25 basis point cut, but that committee members voted unanimously to keep rates on hold. As well as improvements in the local capital market and an appreciating peso, the bank cited a pick-up "in every sector", with risks to the outlook fading amid stronger domestic and external conditions. The fact that inflation remains towards the lower end of the official 2%-4% target range – coming in at 2.2% year-on-year in January, according to the latest data – also gives the bank significant scope for manoeuvre. Although most forecasters expect annual inflation to increase over the course of 2018, reflecting firmer domestic demand and the pass-through from higher global commodity prices (which affect import costs), the increase is nonetheless expected to be mild.

CUBA

Currency move: believe it when you see it

Outgoing Cuban President Raúl Castro told a visiting US congressional delegation in February that 2018 is the year in which the country's two currencies will finally be unified. But unification, which poses complex economic challenges, has been promised for years: so the process may still drag on.

According to US Democratic party senator Ron Wyden, Castro told the delegation that the two-currency system is distorting the island economy and will be replaced this year. The two currency system was introduced in the 1990s following the collapse of the Soviet Union: faced by a major economic

crisis the Cuban government took a series of emergency measures during what was known as the 'special period'. One of these was to create a new, dollar-pegged convertible Cuban peso (CUC) which was used for foreign trade, tourism, and the sale of some imported goods in special hard currency stores (now known as *shoppings*). The domestically focused Cuban peso (CUP) meanwhile remained in use for the payment of wages and the trading of most locally produced goods and services. The current exchange rate between the two is 24 CUPs to 1 CUC. The two-currency system has been used to try to maximise foreign currency earnings. As part of its operation, local wage costs are kept very low in US dollar terms. Average wages stand at 672 CUPs a month, equivalent to only 28 US dollars.

If it happens, currency unification will be a major milestone in what promises to be a big transition year. Cuba is due to appoint a new president in April, after nearly six decades of rule by the two Castro brothers: the late Fidel, who was in power from 1959 to 2008, and Raúl, who took over from him. While the Communist Party continues dominant, the transition is likely to see a new and younger generation gaining power. But the direction of economic policy during the transition remains uncertain. When he took office, Raúl signalled a relaxation of the state's previously tight control of the economy. In recent years, however, policies toward the private sector have been repeatedly relaxed and then tightened. Politically, if currency unification is done in a way that causes inflation and erodes living standards, the government may consider yet another postponement.

A possible pointer to the future came in February with the leak of a draft set of new economic regulations. These point to further tightening of controls on private sector activity. Licences to operate a private restaurant, cafeteria or bars should be amended to restrict the number of seats to 50, down from 100 or more at present, the document suggests. State controls are to be strengthened at "municipal, provincial, and national level" it adds. The document may reflect concern that those in the private sector, particularly those with access to CUCs, are in the eyes of the Communist Party becoming too prosperous. In December, officials suggested that the number of permitted private sector activities would be cut to 122 categories, down from around 200 previously. The number of self-employed Cubans has grown sharply from 157,731 at the start of Raúl Castro's liberalisation process, to 567,982 in mid-2017. A private entrepreneur providing bed and breakfast to tourists can charge US$30 a night – more than the average monthly wage in the state sector.

Also in February, Vice-president Marino Murillo, widely seen as the key official in charge of the economic reform process, was publicly self-critical, saying that the changes had "incurred more errors than virtues". He said there had been insufficient training and poor implementation of policy directives. Murillo nevertheless confirmed the move towards currency unification, saying that one of its aims would be to create more favourable conditions for state-owned companies.

PANAMA

Remaining solid

Data from the Contraloria General (the local statistics agency) released in early March show that the economy grew by 5.4% year-on-year in 2017, making Panama the region's strongest-performer last year. With container traffic through the Panama Canal rising strongly following the completion of the Canal's expansion, the transport sector was crucial to fuelling growth. Moreover, growth prospects for 2018 remain encouraging, with both the International Monetary Fund (IMF) and the Economic Commission for Latin America (Eclac) forecasting a moderate acceleration this year.

Not only did Panama's economy grow firmly in 2017, but it did so from a high base for comparison: GDP growth has been exceptionally strong since 2010, averaging 7.2% per year since then. That implies a rise in per-capita GDP from around US$8,000 in 2010 to nearly US$14,500 in 2017 – marking unprecedented growth by regional comparison over such a short time-frame.

External-oriented sectors fare particularly well

Although most economic sectors registered firm growth rates, the canal fuelled the overall rapid pace of expansion, with canal-related activity accelerating by 16.1% year on year. Port output, which does not include canal transport but reflects trade-related activity at either end of the canal, as well as at the country's other Pacific and Atlantic ports, also rose by a firm 10.1% year-on-year. Solid growth in world trade (which the World Trade Organisation estimates at 3.6%, up from 1.3% in 2016) coupled with expanded canal capacity explains this double-digit expansion. Financial services is another sector that tends to be driven by external demand, reflecting Panama's large offshore sub-sector: this registered growth of 5%, indicating that concerns over corruption related to the Panama Papers scandal did not hamper activity in this sector last year. Another solid performer was the mining sector, which although remains relatively small as a share of GDP, posted growth of 8.3%, which is likely to reflect rising gold output.

However, it is not just externally-oriented sectors that explain Panama's continued robust economic performance. Sectors more closely aligned with domestic demand also fared well, with government services rising by 10.3%, construction up by 8.3%, education services by 7.8%, telecommunications by 7.4%, wholesale trade by 5.6%, and retail trade by 3.7%. Government services have been rising thanks to higher fiscal expenditure, which in turn has been partly facilitated by larger transfers from the Panama Canal Authority. The ongoing expansion of the Panama City metro system and the construction of a second terminal at the Tocumen international airport are perhaps the most visible emblems of this expenditure (which also help explain firm registered growth in construction activity), but public investment has also continued in improving electricity transmission and drainage systems.

Agriculture recovers after two-year slump

Meanwhile, higher per-capita GDP boosted demand in the telecommunications and domestic trade sectors, lifting growth in these areas. The agriculture sector did not post particularly ground-breaking growth (2.6%), but the result was notable as it came after two consecutive years of contraction and was the firmest growth rate since 2011. It is likely to be explained by strong rises in production of rice, bananas and pineapples, which offset falls in other crops, including maize. Agriculture does not account for a particularly large share of GDP (less than 10%), but its importance in terms of providing employment is much higher, representing around a quarter of the labour force. The government has left in place price controls on a wide range of staple food items, arguing that price stability boosts both consumption and production. The controls are reviewed every six months, with the government last announcing that they will be extended for a further six-month period in January. Given that agricultural production does seem to have picked up, the authorities are unlikely to abandon these controls in the short term.

A rosy outlook

Prospects for 2018 are also very encouraging. The IMF is forecasting real GDP growth of 5.6%, with inflation also set to remain low, at an average 2.1%. Eclac's GDP forecast for 2018 is very similar, at 5.5%, indicating a broad consensus on Panama's strong underlying fundamentals. The fact that the global economic backdrop remains solid will undoubtedly work to Panama's advantage, stimulating demand for its transport and financial services, which will ultimately feed through into lifting domestic demand. Despite political difficulties, with President Juan Carlos Varela struggling to advance his policy

agenda in the light of a minority congressional position, the economy is unlikely to be negatively affected. Significant uncertainty remains about the candidates who will contest next year's presidential election, but given the country's broad-based consensus about the need to maintain pro-market, business-friendly policies, investors will have few concerns about the potential emergence of a candidate advocating a radical shift to either the left or the right. This will bode well for the likely continuation of rapid GDP growth in the medium term, regardless of the outcome of the 2019 election.

REGIONAL BUSINESS REVIEW

REGION

Global Business Forum: good news for Latam

The Dubai Chamber of Commerce & Industry held its Global Business Forum on Latin America in late February – a two-day annual conference first staged in 2016 that is designed to deepen commercial and investment ties between Dubai and Latin America. Alongside the announcement that the Dubai chamber is expanding its number of representative offices in the region, the chamber's president stated that Dubai's investment in Latin America was expected to reach AED100m in the coming decade.

This year's conference was organised around three central pillars: Growth Drivers, which sought to identify which areas of the regional economy were fuelling overall economic expansion; Emerging Partnerships, which focused on changes to national, regional and global trade patterns; and Leveraging Synergies, which looked at areas in which co-operation between Dubai and Latin America could generate profitable returns for both sides. Several current and former presidents spoke at the event, including the Panamanian leader Juan Carlos Varela, the former Mexican president Vicente Fox, and the former Colombian president Cesar Gaviria, as well as numerous senior business leaders.

Dubai chamber set to expand presence in Latam.

The fact that the Dubai chamber is expanding its regional presence reflects positively on its efforts to boost trade and investment ties. The chamber already operates one representative office, in Brazil, but during the conference announced plans to open two other offices this year, in Panama and Argentina. Trade and investment flows have risen in recent years, but in net terms remain relatively low, indicating significant scope in the medium term. Brazil, Mexico, and Peru are currently the main markets with economic ties with Dubai, but the chamber has identified Argentina, Colombia, Panama, Costa Rica, and Paraguay as markets that the Dubai authorities are particularly interested in. These markets offer a variety of attractions: some are rich in natural resources (Argentina, Colombia, and Paraguay), while Panama and Costa Rica offer potential in real estate, financial services, and infrastructure. It is notable that all of these target markets are led by administrations that are broadly committed to pro-market economic orthodoxy.

Fintech seen as a key area of investment potential

From Latin America's perspective, these moves represent an opportunity to diversify trade and investment ties, which in many cases remain concentrated among a small number of partner countries (including the US and, increasingly in recent years, China) and in a narrow number of economic sectors. Investment in Latin America's emerging financial technology (fintech) was identified as a potential new source of growth in the region, given that utilising innovative technology could help channel credit growth to Latin American businesses and consumers. Fintech is most advanced in

Mexico, but is underdeveloped in much of the rest of the region. Weak levels of traditional bank penetration have long proved a constraint to overall economic growth in Latin America, hampering consumer demand and corporate investment. The fact that the Dubai chamber commissioned a research paper on fintech opportunities in Latin America, to coincide with the conference, reflects Dubai's interest in this area.

REGION

Corporate Radar

Boeing finding a way to do Embraer deal: According to reports in the Brazilian press, giant US aerospace company Boeing may be making progress in its attempts to take over Brazil's Embraer. The proposed acquisition ran up against the Brazilian government's opposition on national security grounds. Government officials, who hold a 'golden share' in Embraer giving them the right of veto, said they were not prepared to see the defence side of the Brazilian company's business going into foreign ownership. However, according to a report in newspaper *O Globo* on 25 February, government officials have agreed to the two companies forming a commercial aviation joint venture (JV) in which Boeing will have an equity stake that will not exceed 51%. Embraer's defence unit would not be part of the JV. Embraer is the world's third-largest airplane manufacturer after Boeing of the US and Europe-based Airbus. It is the world leader in the regional commercial jet segment (70 to 130 seat aircraft).

DirecTV equity sale: AT&T, the US telecommunications giant, was in February reported to be assessing whether to launch an IPO for DirecTV, its Latin America based communications and satellite television subsidiary. DirecTV, acquired for US$48.5bn in 2015, includes a 93% stake in Sky Brasil and a 41% stake in Sky Mexico. A decision to list DirecTV separately could leave AT&T with a number of options. They would include a full sale of the Latin American company, perhaps to reduce debt following completion of AT&T's takeover of Time Warner. But DirecTV could also be used as vehicle to form partnerships or to itself take over other companies. Potential merger partners in the region might include Telefónica and Liberty Latin America.

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