New year, old problems

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There was some Christmas cheer for Latin America right at the end of last year from a study by the Economic Commission for Latin America and the Caribbean. It was reported that Latin America's current account posted a surplus of USD6 billion in 2003, the first such surplus in 50 years. International economic trends, with recoveries in the United States and Japan, and the growth in China, have contributed strongly to the region's good fortune; not since 1997, said the study, has there been a prediction of positive growth in the following year for any Latin America economy. Higher commodity prices, especially, have been key; generally, prices grew by just under 16% with very strong increases for oil, soya, copper and gold. Unfortunately, the domestic outlook is less encouraging. Following six years of disappointing domestic figures, income per head is now lower than it was in 1997 with about 227 million Latin Americans (representing nearly 45% of the continent's population) living below the poverty line. This condition seems ingrained in the psyche of Latin America where inequality has its historical roots in European colonisation, which set the stage for exploitation of indigenous Indians. The richest tenth among Latin Americans, for example, earn 48% of total income. The poor have more children, so the problem is compounded.

The ECLAC study anticipates an average rate of growth for Latin America this year of 3.5%, with Argentina topping the league at 4.5%. Argentina has recently experienced a burst of economic activity with a marked increase in tourism. Not just in the cities but out in the pampas, farmers are spending money on equipment and the market towns are bustling. Even so, one Argentine in two is living in poverty and unemployment is just below 16%. The largest debt default in history, of course, is being grappled with (although positive moves have been made, progress is slow) but for the moment – at the time of writing – the government has concentrated on boosting domestic consumption.

"At the time of writing", it must be said, is a comment which should preface nearly every article covering economic events not just in Argentina but in Latin America as a whole where change is a fast-flowing current indeed. Besides the estimated USD20 billion hidden under mattresses, it is believed that Argentines have at least USD100 billion held overseas and these are monies the government wants to lure back.

Meanwhile, agreements between the United States and its southern neighbours have become de rigueur in recent months. In December last the Bush administration finalised free trade negotiations with El Salvador, Honduras, Nicaragua and Guatemala (negotiations with Costa Rica have proved fractious). In fact, these are the first trade agreements negotiated in their entirety by the Bush administration and intend to eliminate all tariffs on industrial goods over 10 years with long-term plans to remove agricultural products protection. It can be a long journey, however, between negotiation and implementation and (again) at the time of writing, it does look as if that journey will be uphill. Already, members of the US Congress have criticised the agreements with complaints about material shortcomings. But the US Congress is not likely to be the only stumbling block because the agreements will make it necessary for the Central American participants to deregulate most sectors of their economies and this is going to create its own friction.

The precursor to the latest agreements, the North American Free Trade Agreement, has not exactly met Mexico's full expectations. In fact, critics argue that improvements in exports and foreign direct investment have been the result of reforms which were already in the pipeline before Nafta. On the other hand, Mexico has been held back from greater benefits because of domestic issues, not least of which are weak economic institutions, poor education facilities and stringent labour laws – so often the common denominator for the region as a whole. Now Mexico has the new threat of cheaper labour from China to contend with. Unfortunately, just after it joined Nafta the country suffered severely from the 1994 "tequila crisis". More recently, the government of Vicente Fox, which heralded a new epoch in Mexican politics, did not take advantage of its position when it first came to power. It did not push hard enough with necessary reforms which have now hit a political brick wall due to the intransigence of Mexico's Congress. The important changes, including a complete revamp of the tax system, have not happened.

So while Robert Zoellick, the US trade representative, speaks enthusiastically of opening markets in Latin America, it is perhaps worth remembering what Macaulay, the English historian, wrote in 1845 about the role free trade plays in the economic health of a country: "It is not one single cause that makes nations either prosperous or miserable. No friend of free trade is such an idiot as to say that free trade is the only valuable thing in the world; that religion, government, police, education, the administration of justice, public expenditure, foreign relations, have nothing whatever to do with the well-being of nations". Nowhere more so than in Latin America do Macaulay's words ring true.

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