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Agenda for Action

Consensus on Investment in Education, Infrastructure

Focus
Creating LatAM Prosperity

Event
Peru to India: Let us Develop Together

Tourism
Venezuela: Valley of Eternal Spring

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In This Issue

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Editor: Veerendra Bhargava

Dear Reader,

Greetings. Latin America has been bustling with economic activity in recent years with most governments of the region concentrating on development. The average annual GDP growth of the region as a whole is around 4-5 percent. However, the economic growth has not been uniform. While Venezuela has benefited from high oil prices, Chile and Argentina have sustained their growth through exports and rising domestic demand. But several other countries of the region, including Brazil and Mexico, have posted lower growth, due to a slow-down in investments. Besides imbalances in growth, the crucial issue occupying the minds of the leaders of the region has been the inequitable distribution of wealth. The resource-rich region is yet to get integrated into global trade to derive full economic benefits. Low competitiveness of the region is another major cause for worry. Hence, the overwhelming consensus at the recently held Business Summit on Latin America, organized by the World Economic Forum (WEF), has been on initiating an Agenda for Action, identifying 10 Top Priorities, both social and economic, for immediate implementation. The cover story of the current issue of Indo-LAC Business gives a detailed account of the WEF Business Summit's proceedings and its outcome. It also includes a comprehensive review of Latin America's competitiveness in the current scenario of globalized manufacturing activity and trade. An in-depth analysis of the economies of countries in the LAC region by David Sinate of Export and Import Bank of India, presents the trends in GDP growth and bilateral trade. What is heartening is a sharp rise in two-way trade between India and Latin America, which crossed the $ 5-billion mark in 2005-06. The Inter-American Development Bank (IDB), has been a catalyst in promoting investment flows into Latin America and its President Luis Alberto Moreno, talks about making the institution more alert and agile in meeting the needs of the people across the region. The magazine carries two articles, dealing with IDB's developmental activities. Prime Minister Manmohan Singh will be visiting Brazil for a three-nation summit, the third country being South Africa, in September. He is expected to explore possibilities of entering into a “Free Trade Agreement” (FTA) with Brazil. We present a report. R. Viswanathan, a top diplomat from the Ministry of External Affairs, writes about Brazil's remarkable achievements in the field of agri-business, arguing that India must draw lessons from that country's success story. A high-ranking trade mission from Peru, headed by Juan Carlos Mathews, Executive Director of Peruvian Export Promotion Agency, visited India recently for an interactive session with Export Import Bank of India, during which he launched the e-Newsletter of Indo-LAC Business. We feel honoured and present the interactive session in a news and photo feature. Venezuela is famous for its fabulously beautiful women, bountiful nature and fun-loving people. We present a tourism feature on that country.

Wish you happy reading

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World Economic Forum's Business Meet on Latin America

Agenda for Action

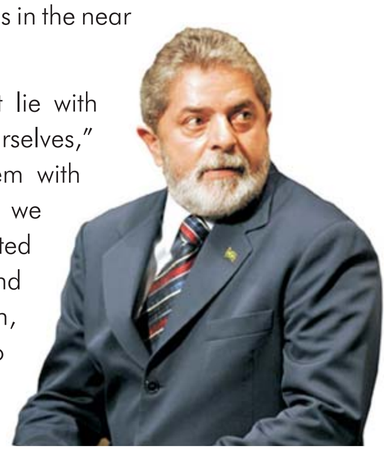
Consensus on Investment in Education, Infrastructure

By Dev Varam

Decision-makers in governments, economists and bankers, participating in a two-day "Business Summit" on Latin America, organized by the World Economic Forum in the Brazilian Capital city of Sao Paulo, have unanimously agreed to initiate an "Agenda for Action", identifying Ten Top Social and Economic Priorities, for immediate implementation. These priorities are aimed at bringing about an equitable distribution of wealth across the region and improve its global competitiveness in the fields of commerce and industry. After reviewing the list, participants voted to focus over the next year on education specifically teacher training and improving the quality of schools and on using public-private partnerships to invest in infrastructure in rural areas, underdeveloped regions and urban slums. There was also strong consensus on efforts aimed at removing social and economic inequalities, eradication of corruption and organized crime.

"Education is the most important investment that we can make," Jorge Gerdau Johannpeter, President and Chief Executive Officer, Gerdau, Brazil, and Co-Chair of the World Economic Forum on Latin America. Added fellow Co-Chair Luis A. Moreno, President, Inter-American Development Bank, Washington DC: "The lack of infrastructure and investment is really the bottleneck to global competitiveness."

Earlier, in a special address to participants, President Luis Inacio Lula da Silva also stressed the importance of investing in knowledge and learning. "Education at all levels is the number one priority," he said, adding, "We should not blame American imperialism for our misery or Europe for our poverty." After reviewing the list of 'Priorities for Action' in the region, participants agreed with him that education should be the main focus in the near future.



"Our problems do not lie with other people but with ourselves," Lula said. "The problem with South America is that we have looked to the United States and Europe and admired their wealth, and we have looked to China and admired its growth, but we haven't thought about what we should be doing ourselves," he said.

Referring to Latin America's realism and newfound self-confidence, he said, "When our region raises its head and negotiates on equal terms with rich countries without arrogance but with humility and perseverance, we will achieve more than when we were just crying out and weeping. We are ready to do that now."

Lula called upon Latin American countries to cooperate more, particularly in building the infrastructure it needs to be competitive and to attract investment. "We will be much stronger if we develop together," he said.

"Private business must be interested in share value but also in 'shared values' as part of their social responsibility obligations. Business can no longer survive in a failed society," said Ivan Zurita, Chief Executive Officer, Nestlé Brasil. "I don't believe in the future of food companies if we don't eliminate poverty," he said.

Moreno said that Latin America was moving forward. "It's important to focus on the trend lines, not the headlines. This hemisphere is doing much better. But it is important to continue to talk about how we can close the social gaps." Gerdau agreed. "We cannot afford to come up with economic equations without looking at the social side. Unless we invest in the social side, we will not be politically positioned to tackle economic problems," he said.

The participants agreed that most Latin American countries are today in a vastly stronger economic situation than at the start of the 90s, and democracy itself no longer in question. However, to maintain its advantages and to maximize its potential, the region must pay close attention to the quality of government.

"Thirteen presidential elections in one year would naturally create a certain climate of political uncertainty," said José Miguel Insulza, Secretary-General, Organization of American States (OAS), Washington DC. "People wonder what a new government will do, if it will have the support of congress, and if it will do what it promised." However, he said, that was different from doubts about the solidity of democratic systems.

"I am sometimes surprised by what I might call the 'Venezuelization' of the discussion about how politics are going in Latin America," he said, noting that the region no longer has a problem with the mechanisms of democracy fair elections, peaceful handover between governments, and so on but with the results that democratic governments are generating for their citizens. "The problem of political risk in Latin America today is much more about the stability and quality of governments," he said.

Participants felt that the question of stability is relevant, for example, to the issue of investment in infrastructure, where businessmen must commit themselves for a horizon of up to 30 years. In this respect, the example of Chile is relevant. The key differential for that country is not education, Insulza said, but its open economy, the stability of political coalitions and the quality of its government. He said that 40 percent of people in Latin America still live in poverty and that the quality of education and social services provided by governments is generally low.

China challenge & opportunity

Business leaders as well as analysts agreed that China is both a challenge and opportunity for Latin America. The fast-growing Asian giant is an increasingly open market and a formidable manufacturing and trading powerhouse. China needs the natural resources that Latin America has in abundance. The challenge for Latin America is to restructure its manufacturing base and invest in the technology needed to produce higher value-added goods and services to enable the region to compete. Mauricio Mequita Moreira, Senior Trade Economist, Inter-American Development Bank, said, "there are huge opportunities in China for Latin America in natural resources. "But agricultural tariffs are too high, and non-tariff barriers are blocking Latin America from gaining a greater market share".

Guillermo Perry Rubio, Chief Economist, Latin American and Caribbean Region, World Bank, Washington DC, said that recent good growth in the region would continue. "The fundamentals are good," he said. "There is the prospect for several years of more or less benign times." Now, therefore, is the moment to lay the foundation for continued strong growth.

Rubio said that compared to the start of the 90s, Latin America is in much stronger shape. Then, growth was fueled mainly by capital inflows. Today, growth is being led by exports and many countries have current account surpluses. "Now the situation is inherently more stable," he said, with countries on average holding reserves equal to 2.5 times their annual debt service obligations.

That said, Rubio noted, there is always room for improvement, and fiscal restraint in good times will help countries weather future possible downturns or turbulence. He listed three key drivers for the future, in addition to sound macroeconomic policies, an open economy and a level playing field:

• Use of up-to-date knowledge throughout the productive sector;
• Infrastructure investment to recoup the backlog built up through under-investment in the 80s and 90s; and
• Continued attention to the quality of institutions, where Latin American countries today have an advantage relative to some other regions.

On the negative side, Rubio said, a possible return to government based on excessive intervention and insufficient respect for the rule of law. However, on the plus side, he saw good macroeconomic management, respect for a pro-market environment and a determined effort to direct social policies towards the most needy. Increasing equality of opportunity in education and the reduction of poverty can be strong drivers for growth, he said.

Ricardo B. Salinas Pliego, Chairman, Grupo Salinas, Mexico, compared the great opportunities in Latin America and the prospects for a better return on capital with the current less attractive potential of Europe. "When I look at the outlying districts of São Paulo, I see the huge opportunities that exist," he said.

Pliego said that there was a risk of the high regional inequality leading to populist solutions, but he saw the inequality as an opportunity. "We don't want to take from the rich to give to the poor to make everybody poor, we want everybody to be prosperous," he said. The importance of governments can be seen by contrasting Mexico and Chile. "It is easier to do business in Chile," he said.

Another area where government can make a difference is in simplifying the fiscal system. "In Latin America these are too complex and costly." The goal, Pliego said, should be for small companies to be able to make a single page tax return. "There are great opportunities in Latin America, but the lack of competitiveness has a lot to do with the quality of governments."

Insulza said that many central banks are today much more independent. "But there is still a trend towards changing rules and regulations. We must learn to respect institutional stability." He said that there are only two paths to achieving institutional stability. One, via autocratic government, is "fortunately" today ruled out in the region. That means the path must lie through strengthening democracy.

Insulza said he sees a tendency for people in Latin America to harp on about the region's problems, whereas in Asia people tend to talk about their success and ignore the "hundreds of millions of poor". Rubio said Latin American countries in general had been slow to wake up to globalization, the importance of education and the need for macroeconomic stability. However, he said, the region's relatively strong institutions now provide a basis on which to build. "But we need to keep on improving to maintain this advantage."

Salinas felt that the cultural heritage of Latin America was to seek solutions designed abroad "principally in Washington" but all countries are different and must decide for themselves what will work or not.

Summing up, Johannpeter said the need for good government was absolutely clear, but so were the "immeasurable business opportunities" in the region. "I am more optimistic now than at the start of this discussion." he said.

The World Economic Forum, which organized the two-day summit on Latin America, is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.

Incorporated as a foundation in 1971, and based in Geneva, Switzerland, the World Economic Forum is impartial and not-for-profit; it is tied to no political, partisan or national interests. ■

Top 10 Priorities

Latin America's decision-makers have set an Action Plan identifying their Ten Top priorities in order to consolidate options and work out solutions to their regional social and economic challenges.

During the World Economic Forum meet on Latin America, held recently in the Brazilian Capital of Sao Paulo, the top leaders of the region were asked to address the following question: How can we achieve equitable distribution of income with economic growth?

Latin America's leaders recognize the need to renew and reinforce their commitment to improve the state of their region and the world. To compete globally, countries should pool their strengths to achieve the scale necessary to build better infrastructure, deepen regional agreements and strengthen regional institutions and governance.

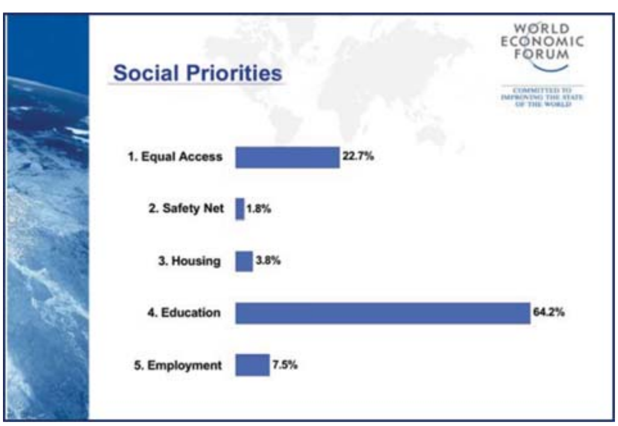
Figures below refer to participants' responses on social and economic priorities for action and represent percentages of the total audience at the Closing Plenary.

Together with the ideas collected prior to the roundtable the following priorities for action were identified:

Social Priorities for Action

Equal Access:

Promote active social policies in favour of low-income households, reconciled with macroeconomic stability, sound fiscal policies and efficient tax collection. An important role should be to enhance access by low-income families to basic healthcare, good quality education from pre-school level and universal social security.



Safety Net:

Increase demand actions through vouchers and/or conditional cash transfers such as the Oportunidades (Mexico), the Bolsa Familia (Brazil) or the Familias en Acción (Colombia).

Housing:

Enhance access to housing through schemes that support demand, which complements the purchasing power of low-income households. Banks and governments should promote the use of mortgage insurance and find ways to extend the tenure of mortgages.

Education:

COVER STORY

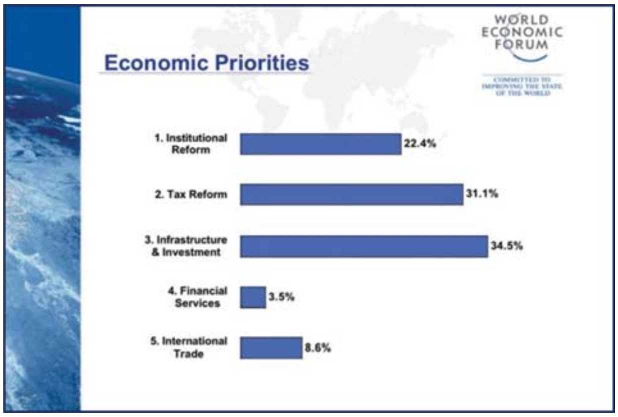
More emphasis and resources should be put on the training of teachers and quality education than in extending mandatory periods of education for children. Educators should be appropriately compensated. Resources should be employed to improve school system management at all levels.

Employment:

Increase the supply of skilled labour so that the high value-added sectors of the economy can grow and improve income distribution, while ensuring long-term growth. Enhance the efficiency of the labour market, while protecting the rights and well-being of the employee.

Economic Priorities for Action

Institutional Reform and Innovation: Set up a public-private agency to concentrate national efforts on attracting investors and promoting innovation. Offer tax credits for R&D spending in the private sector..



Tax Reform: Increase the tax base, simplify the fiscal system and reduce tax evasion by investing in information systems. Institutions need to be strengthened to ensure that these funds are invested efficiently and to minimize the possibilities of corruption and political manipulation.

Infrastructure and Investment:

Public-private partnerships (PPPs) and similar concessions should be set up to focus on building necessary infrastructure over the long term, particularly in rural areas, regions that are underdeveloped and

urban slums. Governments should implement appropriate regulation and increase capital expenditure.

Financial Services:

Improve access of small enterprises and producers to financial services ("bancarización", credit, insurance). This would require better creditor rights, credit bureaus, prudential regulation and innovation in financial products. Promote risk mitigation instruments to help SMEs access long-term financing in local currencies.

International Trade: Actively engage in negotiations to promote fair trade of manufactured and non-manufactured products

Each country should focus, through stable political coalitions and quality of its government, on unblocking the constraints that are impeding it from achieving equitable income distribution and sustained growth. ■

Improving LatAm Competitiveness

Institutional Reforms Imperative: WEF

Latin American countries need to carry out institutional reforms in order to improve the region's competitiveness in a globalized world. This is the essence of a comprehensive report, "The Latin America Competitiveness Review 2006" brought out by the World Economic Forum ahead of a Business Summit it had recently organized on the Latin American Region. The Review, prepared by the Forum's Global Competitiveness Network, set the scene for discussion at the Business Summit. It is also intended as a useful tool for regional policy makers, business strategists and other important stakeholders in identifying the main impediments to growth and the best policies and practices required to build competitive economies in the region.

The Review offers a broad overview of the region's main competitive strengths and weaknesses, highlighting the areas, which require immediate attention. Also included is a comprehensive analysis of 21 Latin American countries through detailed country profiles. Augusto Lopez-Claros, Chief Economist, World Economic Forum, talked about the state of Latin American competitiveness ahead of the World Economic Forum on Latin America business summit. He referred to the Global Competitiveness Report, wherein seven Latin American countries were among the 11 least-competitive nations of the world.

"Latin American countries in general need to make improvements in three areas. First, management of the public finances needs to improve in a major way. The region, with very few exceptions, has a long history of fiscal mismanagement, of governments that cannot rein in public spending and end up accumulating large levels of public debt. This, in turn, limits their ability to spend on education, on infrastructure and public health. Without adequate levels of spending in these productivity-enhancing areas, competitiveness inevitably suffers. Second, levels of transparency in public management and efficiency in the use of public resources need to be improved. Again, with few exceptions, Latin American countries do not do very well in a large number of indicators which assess different aspects of the institutional environment, whether we refer to property rights, the efficacy of the judicial system, levels of graft and corruption, and a deep-seated culture of bureaucracy which creates a burdensome regulatory environment. Third, there is a need to boost levels of education and training to catch up with other regions of the world. Nobel-laureate Amartya Sen sees education as being the main mechanism for empowering people to be active participants in the development process."

Following are excerpts of the Review

After the "lost decade" of the 80s and the structural pro-market reforms of the 90s, Latin America entered the 21st century with rather sound macroeconomic fundamentals, democratic governments, much improved with respect to earlier decades business climates, creating optimism for the regional economic outlook. Indeed, the region grew at an average 4.6 percent in 2005, the highest rate registered since 1980.

Inequitable income distribution

Despite these favourable conditions, Latin America still suffers from one of the most inequitable income distributions worldwide, social tensions and an increasing sense of reform fatigue. Moreover, the region seems to be losing ground as foreign direct investment and trade shares shift to other developing regions, notably Asia and Eastern Europe. It is therefore clear that Latin America will face significant challenges in coming years in its efforts to improve its competitiveness and build the fundaments for sustained economic growth and prosperity for its citizens.

The past decade and a half has been an eventful period for Latin America. A broad-based recognition of the deleterious impact of high inflation on growth, income distribution, and poverty has contributed to enormous progress in bringing inflation under control. With the move by many countries in recent years to inflation-targeting, flexible exchange rate regimes, and widening support for central bank independence, the prospects for sustaining the gains made on the inflation front are quite high, and this is good news.

Rising Public Debt

The region has been considerably less successful in addressing a broad range of weaknesses in management of the public finances. Even as inflation was coming down in the 1990s, public debt levels were going up, sometimes sharply. With rising debt levels, the ability of governments to respond to urgent needs in areas that can be characterized as competitiveness-enhancing, such as improving the region's infrastructure, has been constrained. These weaknesses, and the limitations they impose, in turn have often diverted policymakers' attention from a broad array of important challenges such as how best to confront the rise of India and China, how to upgrade the quality of educational institutions at a time when the level of skills and training of the labor force is emerging as a key component of improved competitiveness, and how to reverse perturbing income distribution trends.

Growth Performance

The favorable external environment of the past couple of years has contributed to a good growth performance in the region and opened a window of opportunity to creatively address many important challenges in new ways. Failure to do so poses risks for the region, for the growth of per capita incomes, for the stable evolution of its institutions and, ultimately, for the region's place in the world economy, both in terms of its relative contribution to world GDP and, perhaps more importantly, its ability to compete effectively in an increasingly complex and sophisticated global environment in which countries that stand still rapidly fall behind. The Review has used the World Economic Forum's Global Competitiveness Index (GCI) 2005 to assess the competitiveness of 21 countries in Latin America and the Caribbean.

Chile's Superiority

Chile confirms its superior economic performance within the region by ranking 27th in the overall sample of 117 countries covered in the GCI and surpassing all its regional neighbors by a wide margin. Not only is Chile ahead of 13 of the EU's 25 members, but there is actually no other country in Latin America that surpasses any EU member. Argentina, second in the region and 54th in the world, is seven places behind Greece (47), the EU's weakest performer. Not only does Chile continue to benefit from remarkably competent macro economic management but, it also operates in an institutional environment characterized by transparency, openness, and predictability. The remaining Latin American and Caribbean countries are spread over the lower half of the Index range, with Argentina closely followed by Costa Rica, Brazil, Colombia, and Mexico. Bolivia, Paraguay, and Guyana are the least competitive economies in the region and are also among the weakest performers of the 117 countries covered by the Index.

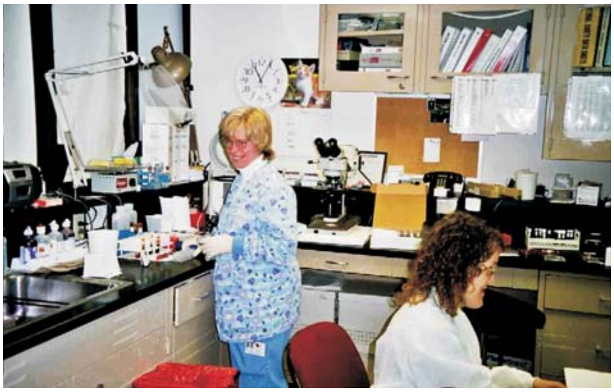
The Nine Pillars

In "Assessing Latin American Competitiveness: Challenges and Opportunities," the main chapter contribution to this Review, the Forum explores the relative performance of countries in the region in the nine pillars measured by the GCI: macroeconomy, institutions, infrastructure, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation.

Based on the GCI, the Forum identified a number of major challenges for improving competitiveness in the region as well as strengths to be built upon. From the assessment of the region's governance structures the Forum concludes that governments should accelerate the reform of institutions to align them better with the requirements of an open market economy and to enable the formulation and implementation of better policies. Upgrading the institutional environment that underpins the policy framework would have additional positive effectsit would increase the effectiveness of subsequent reforms and reduce their distortionary effects. In terms of the quality of infrastructure the Forum's results confirm what has already been widely recognized by governments and aid agencies alikethat there is an urgent need for greater investment in transport, telecommunications, and energy infrastructure in most countries of the region. Indeed, according to the results of the GCI, businesses identified the lack of appropriate infrastructure as one of the most serious impediments to increasing competitiveness.

Health Indicators

On a more positive note, Latin America's performance on health indicators and on primary education compare favorably with that of other regions of the world, although weaknesses remain with respect to higher education and training. Governments will have to give priority to the latter in the period ahead, as the growing complexity of the global economy demands increasing levels of sophistication and training on the part of the labor force. Countries that have invested heavily in higher education and training have been able to boost



their competitiveness and we expect this relationship to become even stronger in` coming years. Goods and labor markets remain distorted and efforts need to be continued to deregulate and liberalize. Reform of the labor markets is particularly important in light of the pressing social needs in the region; virtually all of the growth in the world's population in the next 20 years and, therefore, in the labor force, will take place in the developing world, in countries such as Brazil and Mexico, creating huge pressures for job creation. In addition to efforts to improve the flexibility of labor markets, there is also a need to increase worker mobility through better training programs and to boost the coverage and effectiveness of social safety nets.

Financial Soundness

Although financial market vulnerabilities were at the root of many crises in the region in the past, today, key indicators of financial soundness have improved. Nevertheless, there is much scope to enhance the extent

of financial intermediation in the region and to address other weaknesses, such as the lack of access to venture capital, a shortcoming that seriously limits investment and innovation possibilities.

Businesses in the region operate at a fairly high level of sophistication for their stage of development. Clusters are fairly numerous and contribute to increasing productivity, although they mainly operate at the back end of the value chain, and regional multinationals are appearing and expanding. It is noteworthy that businesses consider the extent of marketing to be their particular strength vis-à-vis international competitors. Production processes and management practices, however, are in need of upgrading. Finally, the Forum argues that efforts to improve the ability to absorb technologies from abroad and to innovate need to be strengthened, building on the progress achieved in recent years. Despite a number of successful examples from the region, an insufficient technological capacity is a serious drag on the overall competitiveness of the region.

After Sharp Recovery, Exports Sustain LatAm Economic Growth

David Sinate

Latin America sustained the momentum of its economic growth during 2005, though at a reduced level after the sharp recovery witnessed during 2004, thanks to buoyant exports, supported by improvements in terms of trade and continued current account surplus for the region, argues David Sinate, Deputy General Manage, Export Import Bank of India. Bilateral trade between India and the LAC region has been buoyant in recent years due to an upswing in two-way flow of imports and exports and investment, Sinate says.

The real GDP growth for the entire region stood at 4.3 per cent in 2005, as compared to the 5.6 per cent growth in the previous year **(Table 1)**, supported by strong global demand for commodities, and in particular fuels and metals. The overall economic growth has resulted in substantial reserve accumulation in the region.

In the Mercosur region, real GDP growth for the region stood at 4.2 per cent in 2005, compared to 6.0 per cent growth registered during the previous year. While economic activity remained strong in Argentina and Chile with real GDP growth of 9.2 per cent and 6.3 percent respectively, during 2005, growth momentum slowed down sharply in Brazil with a real GDP growth of 2.3 per cent in 2005 as compared to 4.9 per cent in 2004, due to subdued domestic demand and softening

Table 1: LAC: Real GDP Growth & Consumer Prices

	Real GDP Growth (%)				Consumer Prices (%)			
	2004	*2005*	*2006**	*2007**	*2004*	*2005*	*2006**	*2007**
LAC	**5.6**	**4.3**	**4.3**	**3.6**	**6.5**	**6.3**	**5.8**	**5.6**
Mercosur	**6.0**	**4.2**	**4.5**	**3.8**	**5.6**	**7.1**	**6.6**	**6.6**
Argentina	9.0	9.2	7.3	4.0	4.4	9.6	12.9	15.0
Brazil	4.9	2.3	3.5	3.5	6.6	6.9	4.9	4.4
Chile	6.1	6.3	5.5	5.2	1.1	3.1	3.8	3.0
Uruguay	12.3	6.0	4.0	3.5	7.6	5.9	5.5	4.9
Andean Region	**7.8**	**6.3**	**4.8**	**3.8**	**8.4**	**6.4**	**5.7**	**6.5**
Colombia	4.8	5.1	4.5	4.0	5.9	5.0	4.7	4.2
Ecuador	6.9	3.3	3.0	2.2	2.7	2.4	3.4	3.0
Peru	4.8	6.7	5.0	4.5	3.7	1.6	2.7	2.2
Venezuela	17.9	9.3	6.0	3.0	21.7	15.9	11.7	17.3
Mexico, Central American & Caribbean	**4**	**3.4**	**3.7**	**3.3**	**7.1**	**4.9**	**4.5**	**3.6**
Mexico	4.2	3.0	3.5	3.1	4.7	4.0	3.5	3.0
Central America	3.9	3.8	3.9	3.8	7.4	8.6	7.4	5.8
Caribbean	2.3	5.9	5.3	4.5	27.2	6.9	8.3	5.8

Source: International Monetary Fund
** - forecast*

in investment. Strong growth in Argentina has been boosted by buoyant domestic demand and robust export growth, while in Chile economic activity has been supported by higher disposable incomes and consumer confidence. In Uruguay, economic activity has been underpinned by subdued inflationary pressure and buoyant exports.

In the Andean region, economic activity remained buoyant with a combined real GDP growth of 6.3 per cent in 2005 against 7.8 per cent during the previous year. Strong macroeconomic polices and rising demand in Colombia and Peru, coupled with continued strong growth in Venezuela boosted overall economic activity in the region. Growth in Venezuela remains strong as high oil prices underpinned increased government spending, while favourable energy prices have also supported economic growth in Bolivia. In the Central American region, real GDP growth has been sustained at around 4 percent, supported by increased prices of export commodities and continued rise in remittances. In the Caribbean region, growth is expected top remain strong, supported by increased tourist receipts and constriction boom. In Mexico, however, economic activity slowed down during 2005 with a real GDP growth of 3.0 per cent as compared to the 4.2 per cent growth in 2004, primarily due to the weaker performance of the agriculture sector and slowdown in manufacturing sector growth.

Table 2: India's Trade with LAC Region (US$ mn)

	2001-02	2002-03	2003-04	2004-05	2005-06
Exports	1018.2	1365.1	1187.6	2179.8	2981.2
% change	-	34.1	-13.0	83.5	36.8
Imports	1009.9	1051.1	1194.4	2067.9	2428.5
% change	-	4.1	13.6	73.1	17.4
Total Trade	2028.1	2416.3	2382.0	4247.6	5409.7
Trade Balance	8.3	314.0	-6.8	111.9	552.8

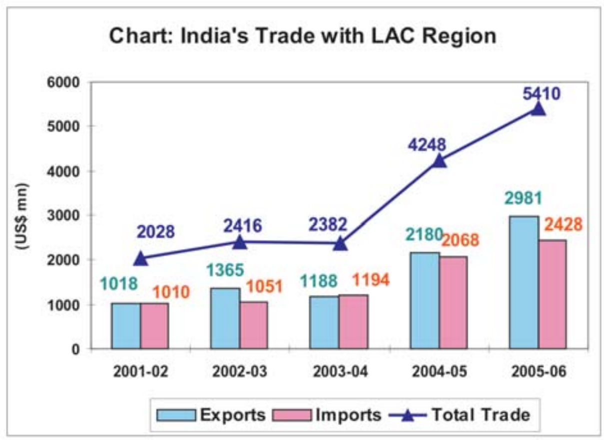
Source: Directorate General of Commercial Intelligence & Statistics (DGCIS), Ministry of Commerce and Industry (MOCI)
Note: Imports data do not include oil imports

Buoyancy in Indo-LAC Trade

In recent years, Indo-LAC trade relations have witnessed significant buoyancy. India's total trade with the LAC region has risen more than two-fold during the five-year period, from 2001-02 to 2005-06, from US$ 2.02 billion to US$ 5.41 billion respectively. A sharp rise in both exports and imports from the LAC region has underpinned the robust rise in total trade.

India's exports to the LAC region registered a significant rise of 83.5 percent in 2004-05, and during 2005-06 the robust trend was sustained with a growth of 36.8 percent. In the case of imports also, India's imports from the LAC region rose by 73.1 percent in 2004-05, and the trend was sustained, albeit at a lower level, during 2005-06.

Among the major markets for India's exports in the LAC region, exports to Brazil, Colombia, Mexico, Chile, Peru, and Trinidad and Tobago registered sharp rise in recent years **(Table 3)**. Increased exports of pharmaceuticals, organic and inorganic chemicals, and machinery instruments to Brazil; pick up in exports of transport equipments and pharmaceuticals to Colombia; sharp rise in exports of pharmaceuticals, and organic and inorganic chemicals to Mexico; increased exports of



machinery and instruments, pharmaceuticals, cotton yarns and fabrics, and transport equipments to Chile; robust rise in exports of cotton yarn and fabrics, and plastics and linoleum products to Peru; and significant rise in exports of petroleum products, and dyes and intermediates to Trinidad and Tobago underlined the robust trends in India's overall exports to the LAC region.

In the case of imports, a pickup in imports from major partners such as Argentina, Chile, Panama, Mexico, Guyana and Venezuela, among others, boosted India's overall imports from the LAC region **(Table 4)**. A Sharp pickup in imports of vegetable oils from Argentina, increased imports of metaliferrous ores and metal scrap, and inorganic chemicals from Chile, rise in imports of transport equipment and inorganic chemicals from Panama, acceleration in imports of electronic goods from Mexico, spurt in imports of metaliferrous ores and metal scrap from Guyana, and sharp rise in imports of artificial resins and plastic materials fro Venezuela underpinned the robust rise in India's overall imports from the LAC region.

Table 3: India's Exports to LAC Region Major Partners

	US$ million			% change		
	2003-04	*2004-05*	*2005-06*	*2003-04*	*2004-05*	*2005-06*
LAC Total	**1187.6**	**2179.8**	**2981.2**	-13.0	83.5	36.8
Brazil	275.8	677.9	1082.6	-42.5	145.8	59.7
Colombia	95.4	330.6	450.2	54.6	246.6	36.2
Mexico	264.6	368.4	434.8	1.0	39.2	18.0
Argentina	87.4	186.2	195.2	44.7	113.1	4.8
Chile	83.1	111.2	150.1	15.0	33.8	35.0
Venezuela	21.1	71.9	93.6	-48.0	240.3	30.1
Peru	38.0	68.8	83.5	-23.6	80.8	21.4
Trinidad and Tobago	19.7	28.9	66.1	-12.2	47.1	128.5
Panama	54.6	55.9	61.7	10.7	2.5	10.4
Guatemala	26.4	37.8	44.5	45.3	43.4	17.5
Honduras	12.0	21.3	34.0	-44.7	77.5	59.4
Dominican Republic	12.2	22.0	31.5	-24.6	80.1	42.9
Uruguay	19.5	24.5	27.5	15.2	25.7	12.1
Ecuador	14.1	22.7	25.9	18.1	60.6	13.9
Jamaica	9.1	13.4	25.7	-14.4	48.1	91.8
Puerto Rico	26.5	14.7	18.5	296.6	-44.6	26.1
Paraguay	10.6	12.0	16.1	54.3	13.6	34.3
Costa Rica	20.5	16.5	15.9	94.4	-19.8	-3.7
Haiti	8.6	10.2	15.7	-21.4	18.8	53.8
Suriname	3.7	17.6	15.5	105.5	369.8	-11.7
Cuba	5.0	7.4	11.9	2.9	50.1	60.0
El Salvador	6.6	8.9	11.8	75.6	35.7	33.0
Guyana	4.8	6.9	11.0	35.5	43.8	60.5
Nicaragua	6.0	11.4	10.3	13.9	90.5	-9.2
Netherlands Antilles	11.4	5.3	10.2	-61.9	-53.7	93.7
Bahamas	3.2	5.6	9.2	1.6	71.8	65.0
Bolivia	3.7	4.0	6.5	73.7	7.0	63.6

Source: DGCIS, MOCI

Table 4: India's Imports from LAC Region Major Partners

	US$ million			% change		
	2003-04	*2004-05*	*2005-06*	*2003-04*	*2004-05*	*2005-06*
LAC Total	**1194.4**	**2067.9**	**2428.5**	***13.6***	***73.1***	***17.4***
Brazil	313.7	792.1	863.9	-1.2	152.5	9.1
Argentina	524.3	539.4	703.3	29.5	2.9	30.4
Chile	156.8	345.4	432.5	-6.4	120.2	25.2
Panama	8.0	90.8	161.8	-55.5	1035.5	78.1
Mexico	73.9	82.6	96.8	12.6	11.7	17.2
Costa Rica	25.6	35.5	37.3	383.6	38.3	5.2
Peru	29.9	36.3	23.0	20.6	21.4	-36.7
Guyana	11.9	7.2	21.3	442.7	-40.0	196.8
Ecuador	5.8	22.9	19.7	175.5	292.6	-14.3
Venezuela	2.5	4.0	9.5	-32.3	60.2	135.8
Colombia	10.5	14.2	8.2	79.3	35.2	-42.1
Puerto Rico	0.4	5.0	7.2	-84.7	1171.8	44.6
Suriname	0.5	1.0	6.5	-84.4	88.2	575.0
American Samoa	0.0	0.1	4.7	-	-	-
Paraguay	0.8	2.8	4.2	17.2	269.3	52.0
Uruguay	10.2	4.1	4.0	119.1	-60.4	-1.2
Saint Pierre and Miquelon	-	0.1	3.6	-	-	-
Turks and Caicos Islands	-	-	3.5	-	-	-
Cuba	1.9	1.7	3.3	-49.2	-6.5	91.3
Dominican Republic	1.8	2.8	2.6	-	57.7	-4.7
Jamaica	0.9	2.7	2.1	513.3	188.0	-19.2
El Salvador	1.1	1.8	2.1	-7.6	67.9	12.0
Guatemala	0.2	1.1	1.8	-91.8	430.0	71.7
Trinidad and Tobago	7.4	14.0	1.8	-	89.3	-87.0

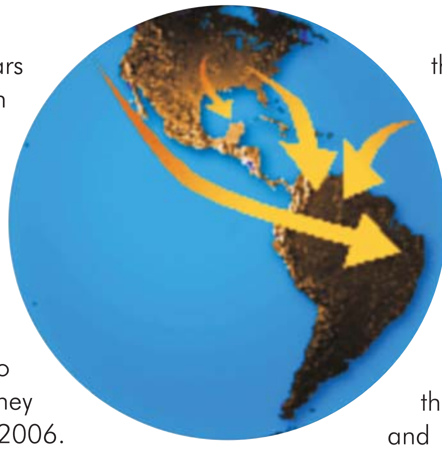
Source: DGCIS, MOCI

Creating Prosperity in Latin America

In Praise of Those Who Dared to Dream

Luis Alberto Moreno

In an emotionally touching speech on the theme - *Creating Prosperity in Latin America* - delivered at the Business Forum, organized by Poder magazine in Miami in the United States recently, Luis Alberto Moreno, President of Inter-American Development Bank (IDB) talks about the Latin American emigrants, the "Unsung Heroes" whose remittances to their homelands have helped in bringing about far-reaching economic development and social changes across the region. Excerpts.



As most of you know, the last three years have been very good for Latin American economies. As I often remark when confronted with negative news about the region: *the trendlines are better than the headlines*. The region is experiencing its healthiest growth dynamic since the 1970s. Annual growth rates have averaged close to 5.0 percent a year since 2003, and they are expected to reach 4.6 percent in 2006. Average inflation is in the single digits and at 40-year lows. Budget deficits have been trimmed to levels lower than those of many industrialized economies, while debt has dropped from 72 percent to 53 percent of the regional GDP between 2002 and 2005. Unemployment is back to its pre-crisis levels of 1997, and median wages have increased 13 percent in real terms since 2002. It is estimated that 13 million people left the ranks of the poor in the region in the last two years.

Stock Market Performance

Investors have taken note. The region's stock markets have lately been among the world's best performers nearly tripling in value since 2002, and the interest rates Latin American governments pay on their dollar-denominated bonds have dropped to record lows

Migrants and prosperity

External factors, like high commodity prices, strong global demand and low international interest rates, have

4played a key part in this recovery, as have the sound economic management and prudent fiscal and monetary policies conducted by governments throughout most of the region. But some of the unsung heroes of this recovery are the 30 million or so Latin American migrants living and working in the United States, Europe, Japan and other countries. Like so many diasporas before them, their influence is being increasingly felt at home. Let us not forget that in the late 19^{th} century and the first half of the 20^{th}, Latin America and in particular countries like Argentina and Brazil, received millions of migrants, particularly from Europe, who through their remittances, investments and acquired knowledge, contributed significantly to the post-war growth of countries like Italy and Spain.

Migrant Remittances

The IDB estimates that in 2005, migrants, primarily in the United States, pumped some $53.6 billion dollars into the economies of Latin America and the Caribbean. These flows equal about 2.5 percent of the region's GDP. To put them in perspective, they are approximately the size of the annual production of the economies of Ecuador and Costa Rica combined, and represent close to 20 times the level of U.S. annual foreign aid to Latin America, and more than four times the annual foreign direct investment by American companies in the region. In some of the smaller countries in the region, annual remittances equal more than 10 percent of GDP, and surpass income from exports and/or tourism. In the case Haiti, yearly remittances of $1 billion dollars are two-and-a- half times the government's annual budget and 20 percent of GDP. With numbers like these, it is clear that remittances are transforming the daily lives of millions throughout the region, as they are doing throughout the world, as one in every 10 people currently receive them.

Capital Flight

These flows are the converse of a phenomenon that has traditionally plagued Latin American economies. Our region has been historically characterized by boom-and-bust cycles and a pronounced volatility, by which the gains of good years tend to be eroded away in the next slump. These fluctuations have been caused or at least intensified by the instability of capital flows to the region. Remittances, on the other hand, have proven to be remarkably stable, and certainly more so than exports which vary commodity prices and foreign investment which often swings with the whims of the market. While an economic downturn or a tightening of immigration in the United States and other countries could affect the volume of remittances, most studies suggest that they will continue to grow for the foreseeable future. As such, they will not only continue to provide resources for personal consumption and investment, but also precious foreign currency to bolster macroeconomic stability.

Adverse Effects

Of course, remittances are no silver-bullet. Like any resource flow, their capacity to generate lasting impact will depend on the conditions of the environment into which they are absorbed. And they certainly don't come free. They often have substantial human, economic and social costs. Emigration frequently deprives communities of their best talent, and tears families apart. Moreover, there are cases in certain areas of El Salvador, for example, where the profusion of remittances has created perverse incentives for work and led to rapidly rising prices. By stimulating consumption booms and rent-seeking, remittances can have negative effects on local development, as abundant natural resources sometimes have. Unlike commodity windfalls, however, remittances go directly to the people who know best what they need them for. Indeed, remittances to Latin America and the Caribbean are extremely democratic, involving upwards of 220 million individual transactions last year alone.

In any case, the fact is that these flows are here to stay, and they derive from the autonomous decisions of millions of individuals who have every right to vote with their feet and seek out a brighter future far from their homelands. And the demand for migrant labor, especially in industrialized countries, is on the rise. The Migration Policy Institute estimates that at the present time, the number of people coming into the U.S. workforce is equal to the number of people coming out. This means that, in effect, every additional job position created by the American economy going forward will have to be filled from outside.

Remittances & Development

The costs that remittances generate can be mitigated, and, given their magnitude, the opportunities they create to serve as levers for development are vast. The question with which we are grappling at the IDB, one which many countries in the region are increasingly asking, and which this audience should help address, is: how to get more development bang for each remittance buck? We at the Bank believe that the way to do this is not by central mandate or government imposition these resources, after all, belong to those who work for them and their families but rather by expanding opportunities for these people to leverage their remittances for their own personal benefit, which could translate into gains for all society.

In a way, remittances remain financial flows in search of financial products. IDB research estimates that about 20 percent of remittances to Latin America and the Caribbean, or US $11 billion annually, is available for savings, housing, and other forms of investments such as family owned small businesses. That is about as much as the IDB and the World Bank combined typically lend to Latin America and the Caribbean every year. The trouble is that most of these flows occur outside the financial system, and banking institutions in recipient countries have not adequately developed savings, lending and insurance instruments catered to lower-income citizens. Currently, in fact, less than 10 percent of remittance recipients are estimated to have access to savings accounts, loans, or other basic financial services.

The Poor & Bank Savings

It is commonly believed that the poor do not need banks because they do not have the means to save. This is not unlike the chicken and egg problem. Recent research shows that they will not save if they are not given the opportunity to do so. Pilot cases in Mexico show that if individuals have access to formal banking mechanisms, they will save about seven percent of their remittance income. If the financial

FOCUS

system embraces this market, enhancing the borrowing, saving and investing capacity of senders and recipients, it would multiply economic impact for millions of families. It would also have the benefit of soaking up resources that might otherwise go to consumption, and helping to create the conditions for more people to stay in their home countries and lead productive lives.

Traditional banks throughout Central America, Mexico, the Andean countries and even the Southern cone, are aggressively implementing remittance programs and partnerships to expand products and generate new clients. They are transforming the "walk-ins" who come to their agencies to claim cash remittances into full customers, and even trying to cross-sell internationally, contacting remitters in foreign countries to sell products for their families back home. To mention one example the IDB has supported, "Su casita" a market leader in low income housing in Mexico with a $2.1 billion portfolio, recently launched a program to meet demand for Mexican mortgages originating with buyers living and working in the United States, The company has established marketing offices in various US cities and in the last few months has sold 650 mortgages to US customers for purchase of new homes in Mexico. Housing, as you well know, generates a lot of employment and can be a tremendous vehicle for broad wealth creation.

At the IDB, we believe that over the next five years, remittance systems can be entirely transformed with increased use of technology and more competition, including the entry of banks into the market, full force. The barriers between money transfer companies, retail entities, banks, microfinance organizations and others are rapidly being blurred, and remittances are becoming one of the primary entry points by "unbanked" populations into the formal system, a key mechanism for advancing towards the greater financial democracy that the region desperately needs to make progress against poverty and inequality.

Beyond remittances

While remittances are the most evident way by which the movement of peoples and emigration can contribute to prosperity in Latin America, they are not the only way. These migrant communities are creating large markets for Latin American companies, from ethnic food producers, to builders of retirement communities, to call centers. They are also catalysts for increasing the demand for Latin products such as pop music by other segments of the population in their host countries. And those that have built businesses abroad are increasingly looking back home for expansion opportunities, bringing capital, knowledge and valuable commercial connections. In this area, the IDB has a pioneering program with Brazilians of Japanese descent who are living in Japan and want to start business in Brazil. The Bank co-finances productive investments by these individuals and also their return to Brazil to pursue entrepreneurial opportunities. The opportunities for expanding programs of this nature will expand as countries in the region ramp up Free Trade Agreements with the United States and other countries.

There are many more ways migrants are contributing to prosperity in Latin America. By engaging in philanthropy, political activism and just by providing examples of self-made success, they are increasingly having a positive impact back home. And, going forward, as communities abroad expand, ease of travel increases, the cost of communications and barriers to trade continue to drop, the possibilities for more active involvement and further cross-fertilization of initiatives, businesses and ideas are endless.

Freer Movement of People

I sincerely hope that industrialized countries will have the foresight and good sense, to move towards more equitable and effective immigration policies, not only because these can be a boon to growth and prosperity throughout the world, but because it is in their own strategic interest, especially as their populations age. Studies show that the economic gains from freer movement of peoples are exponentially greater than those that can be achieved, for example, from a successful Doha trade round.

However, there are likely to always be limitations in this area. For example, software and technology companies in the U.S. are increasingly affected by immigration quotas on highly-skilled scientists and engineers. But barriers like these could generate new opportunities for Latin America. Countries like Mexico, which benefit from NAFTA and physical proximity to the U.S. market, could attempt to plug this gap by establishing joint ventures with companies and universities from the U.S. and elsewhere to establish self-contained, high-tech campuses with all the business infrastructure and lifestyle amenities of the developed world. One could think of a "knowledge maquila" cluster in or around Monterrey, where scientists and technicians from India, China and the world over could work and train in world-class, broad-band enabled environments within easy reach of the U.S. border and without having to worry about visas. This model, which one could call "on-shoring" or "near-shoring", could have the additional benefit of curtailing illegal immigration, by creating new job opportunities in border areas.

Ideas like these are by no means implausible in today's world. We only have to dare to be ambitious and to dream. Our countrymen and women who have left their nations of origin to pursue their destinies abroad have shown us just how far dreams can take us. ■

IDB *to be more agile & alert to people's needs:* Moreno

Luis Alberto Moreno, the newly-appointed President of the Inter-American Development Bank, has proposed to turn the IDB into a more agile, decentralized institution focused on sectors and priority issues that will improve the competitiveness of the Latin American and the Caribbean economies. In his opening speech at the annual meeting of the IDB Board of Governors held in Brazil, Moreno presented his priorities for his five-year mandate to the 47 member countries. He took office in October 2005. The Board of Governors, the IDB's main decision-making body, consists of representatives of all its member countries, who are mostly finance ministers and presidents of various central banks.

Moreno, the fourth president of the IDB since its creation in 1959, said he inherited a financially sound institution, with deep knowledge of the region and a solid commitment to its social and economic development.

The IDB must become the "Bank of Competitiveness" in order to help Latin American and Caribbean countries face the challenges of a globalized economy, he said. He added that the institution will focus its financing on initiatives that will help the region reduce the gap in infrastructure, technology and institutions that is holding back its progress. In order to fulfill this role, the Bank must respond to the demands of its borrowing countries and their populations, Moreno said.

"In the first place I want to create a Bank that is closer to its clients, the people of Latin America, and I will foster its decentralization," Moreno said. "Secondly, we will make the Bank more agile, reducing the time between the approval and the disbursement of loans."

Other priorities will be to increase the volume of financing to the private sector and regional infrastructure projects to help Latin America achieve an effective integration of its economies, as Europe and the North American countries have done.

With reference to the political changes presently underway in Latin America, Moreno pledged the IDB's support for reforms to help the people of the region achieve their legitimate demands.

For that reason, the IDB will continue to support structural programs to combat poverty. It will also begin to work more closely with subnational governments, such as provinces and municipalities, which are increasingly taking responsibility for social services such as education and basic health.

Moreno reviewed the economic outlook in the region, which during the last three years has enjoyed its best performance of the past three decades thanks to renewed growth, a surge in prices of export commodities, a drop in inflation, a reduction of fiscal deficits, an improvement of the external debt profile and the accumulation of international reserves.

In contrast with these optimistic data, Moreno also raised some concerns: "In relative terms, Latin America is today less important than what it was when the Bank was founded," he said. "In 1959 we represented 6.0 percent of the global gross product, and there we remain. Our participation in international trade was 7.3 percent. Today it is 5.1 percent. We have not reduced the income gap with the developed countries."

Moreover, Latin America has lagged behind with respect to countries in other regions that were less developed when the IDB was created.

Although Latin American countries have achieved notable progress in reducing child mortality and increasing basic education over the past 47 years, basically the same proportion of the population in the region remains stuck in poverty and lacks technological development to sustain competitiveness in the modern world. Regarding efforts of Latin America and the Caribbean to achieve sustained economic and social development, Moreno rejected the notion that there is one best model. Even though there are clear principles to follow to reach higher and sustained growth rates, he said, those are not sufficient. "It has been a mistake to believe that good macroeconomics or open trade by themselves can generate the miracle of development," Moreno said.

Latin America must eliminate institutional obstacles that prevent a more equitable distribution of economic benefits and which condemn most of its population to lower conditions of living and generate social and political instability, he added. In this respect, Moreno proposed an initiative that will involve the IDB in projects specifically directed to expand access to the benefits from economic and social development for the great majority of Latin America and the Caribbean.

The initiative, **Creation of Opportunities for the Majority,** has since been launched during a conference held at IDB headquarters in Washington, D.C in June with the participation of heads of state, academics and social and private sector leaders.

Moreno also pointed out that one of the priorities of his administration will be to take advantage of the role of the IDB as a platform for dialogue between Latin America and the Caribbean and its industrialized country partners, following the mandate of the founders of this institution.

In his speech Moreno paid homage to **Juscelino Kubitschek**, Brazilian statesman and a promoter of Pan American integration, including the founding of the IDB. In memory of this former mayor of Belo Horizonte, governor of Minas Gerais and president of Brazil, the Bank will create an award for leaders in efforts to further develop Latin America and the Caribbean. ■

Inter-American Development Bank

Lessons for India from Brazil's Agri-business Success Story

By R. Viswanathan

Brazilian companies can be tapped for technologies and investment in agribusiness in India. Agri-business contributed $239 billion, or 28 per cent, to the total Brazilian GDP in 2005. Brazil is the world's largest producer of alcohol, sugar, coffee and orange juice. It is the second largest producer of soya, beef and tobacco and ranks third in the world in the production of chicken, corn and fruits.

Brazil is the undisputed leader in the export of alcohol, sugar, coffee, orange juice, soya, beef, tobacco and chicken. Agro-exports amounted to $44 billion in 2005, of a total of $118 billion. As and when the EU and the US remove or reduce their subsidies, Brazil the third largest agro-exporter (after the EU and the US) has the potential to increase its exports significantly and become an agricultural power.

Brazil's production of sugarcane in 2005 was about 420 million tonnes. Sugar factories there have the flexibility to produce either alcohol or sugar directly from sugarcane. This is an advantage to the mill-owners who can decide on what to produce depending on the prices and market situation. In 2004, sugar production was 27 million tonnes and alcohol 15 billion litres. There are plans to set up 40 plants for alcohol production in the next three years to cater to the growing domestic and global demand.

Chicken production and export is one of Brazil's success stories. Poultry meat production has exceeded the traditional beef production. It reached 8.95 million tonnes in 2005 from 3.4 million tonnes in 1994. Brazil exports poultry meat to over 140 countries.

LARGE FARM TRACTS

Brazil has a large fertile land area, of which it uses 47 million hectares for agricultural purposes. An additional 100 million ha can be brought under cultivation, without cutting the Amazon forest or affecting the eco-system. Brazil has invested considerably in farm research and innovation. Both the government and the private sector have established a large network of laboratories, which have contributed to increase in yield, with new crop species and processes. For example, in the last 15 years, productivity growth has risen 175 per cent for raw cotton, 62 per cent for corn, 48 per cent for wheat, 43 per cent for rice, 51 per cent for beans and 39 per cent for soya. The Brazilian soy productivity of 3,000 kg per ha is the highest in the world.

Brazil's success has lessons for India, which has started focusing on agribusiness. Brazilian companies can be tapped for technologies and investment and joint-ventures in food processing and agribusiness in India. Indian companies can consider investment in large farms for captive production of crops such as soy and sugarcane. But they need to watch out for changes in the production of sugar and alcohol, as this will affect global prices.

EXPORT TARGET

Indian companies should target Brazil for exports of wheat and rice since the latter is a large importer of these items. There is also tremendous scope for export of inputs which go into the large Brazilian farm sector such as pesticides, chemicals and agro machinery and equipment.

The Indian Council for Agricultural Research can benefit by collaborating with its Brazilian counterpart, EMBRAPA, and undertaking joint projects.

The flexifuel technology is a crying need for India, given the enormous oil import bill and the excessive dependence on external sources of oil. Another advantage of using ethanol from sugarcane is that it would contribute to rural development and generation of employment within India, while crude oil means contribution to the wealth of the oil-supplying countries. The Brazilian Government and the private sector are willing to extend cooperation as part of the evolving bilateral strategic partnership and provide a roadmap on ethanol use.

(The author is with the Ministry of External Affairs. The views are personal.) ■

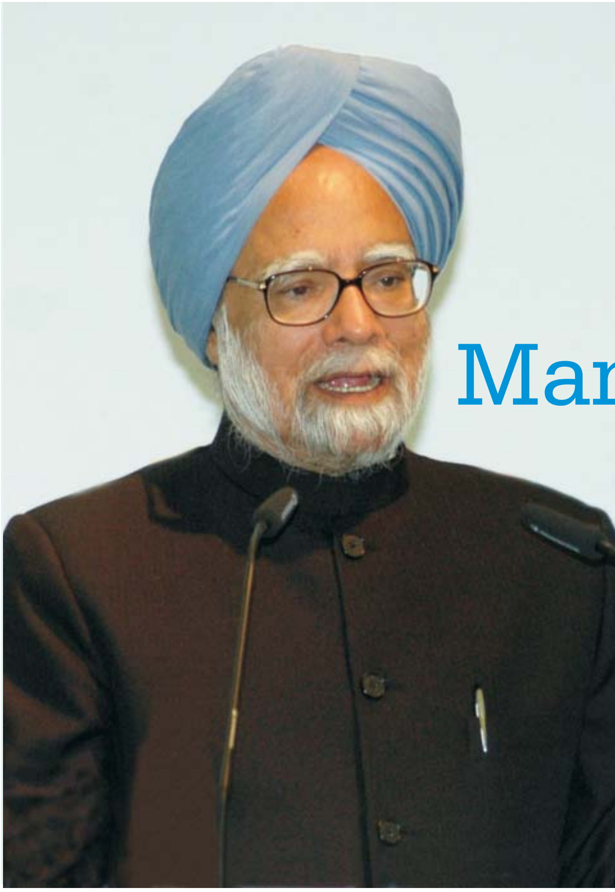
Surge in industrial production revives Brazilian GDP growth

Brazil's economy accelerated in the first quarter of 2006, led by a surge in industrial output and capital investments, after the central bank cut interest rates to revive growth. Gross domestic product grew 1.4 percent in the first quarter of 2006 from the fourth quarter of 2005, when it expanded a mere 0.9 percent after a brief slump. First-quarter GDP rose 3.4 percent from the first quarter of last year, the government's statistics agency IBGE has said.

Finance Minister Guido Mantega said on Wednesday he would keep his projection for growth in 2006, which is more optimistic than the market's view, at 4.5 percent, or nearly double the rate last year. Latin America's largest economy was projected to have grown 1.5 percent in the first quarter of 2006 from the fourth quarter of 2005. That was the median forecast from 15 economists.

"This result provides a certain tranquility about projected growth for this year of between 3.5 and 3.8 percent," said Newton Rosa, chief economist at Sul America Investimentos in Sao Paulo.

The numbers were in line with median forecasts. Faster growth may boost chances that President Luiz Inacio Lula da Silva, who is leading opinion polls by a wide margin, could win a second-term at October's election. ■



Manmohan Singh to explore chances of FTA with Brazil

Prime Minister Manmohan Singh is expected to explore the possibilities of working out a trilateral Free Trade Agreement (FTA) between India and the regional groupings in Latin America and South Africa when he attends the IBSA (India-Brazil-South Africa) summit in Brazil on September 13.

The issue of a free trade agreement (FTA) between India and the regional groupings has gained momentum and at the upcoming IBSA summit in September, India, Brazil and South Africa may set up a working group that will explore the modalities of a trilateral FTA.

In past meetings, including the third meeting of the trilateral commission of the IBSA Dialogue Forum that was held in March 2006, India has been positive to the idea of an FTA between India, South African Customs Union (SACU) and Mercosur (a regional grouping that includes Brazil Argentina, Paraguay, Uruguay and Venezuela). Mercosur has already proposed to SACU and India the creation of such a working group that will study in depth the advantages of the trilateral FTA.

India has already voiced its support for the working group and all three countries have so far been positive about going in for an FTA. FTAs were a matter of debate in India recently with Congress president Sonia Gandhi writing a letter to the prime minister urging caution on signing FTAs with other countries.

However, the three countries will also be looking at strengthening economic and trade relations and apart from FTA are looking at trade facilitation measures, customs cooperation, all issues that are likely to come up during the summit. India's trade with Latin America has been rising rapidly in the last year or two.

The two way trade in 2005 nearly doubled to $2.34 billion from $1.207 billion in the previous year, a 90 percent jump from 2002. The aim is to increase trade flows between the three countries to $10 billion by 2007.

At the September summit, the three countries will also look at cooperation in energy. South Africa is big in coal gasification, Brazil is big in ethanol and India brings expertise in solar energy and bio diesel. Civilian nuclear cooperation is also an area that is likely to be explored anew when the summit takes place especially in the background of the Indo-US civilian nuclear cooperation. The three countries had decided in March 2006 to consider further enchancing international civil nuclear cooperation with countries, which share the objectives of non-proliferation.

Brazil and South Africa are both Nuclear Suppliers Group countries, which have supported relaxation in rules for India and their support in the NSG will be important. ■

HSBC to boost presence in Latin America, buys Panama bank

HSBC Holdings Plc, Europe's biggest bank, has said it is buying Panama's leading bank Grupo Banistmo for $1.77 billion (958 million pounds) to boost its presence in Latin America.

Under the agreement, HSBC will offer Banistmo stockholders $52.63 per share. Owners of 65 percent of Banistmo have already agreed to sell at that price, the minimum threshold for the deal to go through. London-based HSBC already owns Mexico's fourth-largest bank and one of Brazil's top 10, and has said it wants to grow more in Latin America.

HSBC is the world's third biggest bank, with a market valuation of about $200 billion and operations in 76 countries. In Latin America, it recently made acquisitions in Paraguay and Argentina, and in March it sought a permit to operate in Peru's banking system.

In 2005, HSBC said it wanted to expand in Latin America to target middle classes in emerging markets amid slowing growth in its core markets in the United Kingdom, Hong Kong and the United States.

Banistmo has grown into Central America's biggest banking group with about $9 billion in assets and net profits of $115 million in 2005. It has operations in Panama, El Salvador, Honduras, Costa Rica and Nicaragua as well as Colombia and the Bahamas. Banistmo shares rose 4.1 percent to close at 33.20 euros on Spain's Latibex exchange of Latin American stocks earlier on the news of its acquisition by HSBC. Its stock also trades in Panama.

HSBC already has 19 branches in Panama, offering personal and commercial banking services, and 12 branches operating under the Financomer brand. It has operated in Panama since opening a representative office in 1972. In 2000, it bought the operations of Chase Manhattan Bank in Panama and last year it bought the group of companies trading under the brand name Financomer, which entered the personal lending market in Panama in 1986. Its Panama operations are run through HSBC Mexico, one of Mexico's biggest financial services groups, largely made up of the Grupo Financiero Bital business HSBC bought in 2002. ■

NEWS

Brazil to offer more aid to farmers

Brazil's government is ready to offer more aid to farmers, adding to an aid initiative announced recently, as losses in the country's agricultural sector crimp growth, Agriculture Minister Roberto Rodrigues said.

Brazilian President Luiz Inacio Lula da Silva has asked Finance Minister Guido Mantega to extend aid to farmers and renegotiate their debt, Rodrigues said.

The government last week announced 50 billion reais ($21.7 billion) in aid for commercial crops and another 10 billion reais for family agriculture. The government said in a report that losses in agriculture curbed gross domestic product growth in the first quarter. ■

Argentina Credit Rating Raised by Fitch on Growth

Argentina's credit rating has been raised by Fitch Ratings after the country's economy expanded for a third year in 2006 and the government reduced its needs for financing.

Fitch raised Argentina's foreign and local currency debt issued under Argentine law to B from B-, five levels below investment grade, and foreign currency debt issued under foreign law to B- from CCC+, six levels below investment grade, the company said in a statement. It also raised the long-term local currency issuer rating to B from B-.

Argentina's requirements for debt repayment are low compared with similar non-investment grade issuers, Fitch said in a statement. Argentina late last year paid off its entire $9.8 billion debt with the International Monetary Fund drawing down about one-third of its central bank reserves.

“Our confidence in Argentina's creditworthiness over the next 18 months has increased," said a Fitch analyst in a statement. "The action reflects reductions in government financing requirements and favorable near-term economic prospects," he said.

Argentina's economy expanded more than 8.0 percent in for the last three years in a row, helped by exports of commodities such as soybeans and steel, and is expected to grow 7.5 percent in 2006, according to a central bank survey of 55 economists.

Argentina, which defaulted on $95 billion of bonds in late 2001, completed its debt restructuring June 2 last year. Investors holding about $20 billion in debt refused the government offer to repay about 30 cents on the dollar. Fitch said Argentina must still normalize its relations with holdout creditors to improve its position in credit markets.

Argentina has all of its financing needs covered for this year, Economy Minister Felisa Miceli said recently, during a meeting with Argentine businessmen. "Argentina's financial needs are covered for this year," Miceli said. According to her, Argentina's primary surplus is currently 3.3 percent of gross domestic product.”

An Economy Ministry spokesman confirmed the comments, but did not rule out the possibility of Argentina seeking additional financing later in 2006 if the country's fiscal situation changes. In 2006, Argentina needed some $1 billion in financing, officials have said. In early May, the country sold $500 million in five-year bonds in the second tranche of a $1.5 billion series planned for 2006. The country has also raised funds in direct bonds sales to Venezuela.

In 2005, Argentina's primary budget surpassed the government's target to total 19.66 billion pesos, or 3.7 percent of gross domestic product. The government, headed by President Nestor Kirchner has said it expects the surplus to narrow slightly this year to 19.35 billion pesos, or 3.26 percent of GDP. The central bank forecasts 2006 economic growth of 7.0 percent. Argentina's economy has averaged 9 percent annual growth over the last three years.

Exports poised to cross $45 bn in '06

Argentine exports will grow 13 percent this year, surpassing $45 billion, led by agricultural commodities, such as soybeans and vegetable oil, Economy Minister Felisa Miceli said.

The country's exports will increase from a record $40 billion in 2005, Miceli said during a conference held by the Argentine Chamber of Exporters in Buenos Aires recently. The country's trade surplus will exceed $11 billion, she added.

"Argentina exports are key to the economic model of this government," Miceli said. Argentina's economy is expanding for a fourth straight year, helped by China's increased purchases of soybeans and other agricultural commodities. The economy grew more than 8 percent in each of the past three years, and half of that expansion is due to exports, compared with 34 percent 10 years ago, Miceli said.

Argentine farm-based food products and industrial goods, such as cars and steel pipes for the oil industry, grew 20 percent and 15 percent, respectively, in the first half of 2006.

Economic expansion in other South American countries such as Chile and Brazil bolstered demand for cars and trucks manufactured in Argentina, helping boost the country's industrial production 8.7 percent in June from a year earlier.

Argentina's economy is rebounding from a four-year recession that deepened after the government defaulted on $95 billion of bonds in late 2001 and devalued its currency weeks later. The economy contracted 11 percent in 2002, the biggest drop on record. ■

Colombia in talks with Central America on free trade pacts

Colombia, fresh from reaching a free trade agreement with the United States, is now trying to eliminate trade barriers with Central America. Negotiators in Bogota have kicked off talks with El Salvador, Guatemala and Honduras aimed at reaching a free trade deal affecting more than $200 million in annual trade with Colombia.

"We've set an ambitious goal of concluding talks within six months," Colombia's Trade Minister, Jorge Botero, told a press conference. The talks should be aided by the fact that the three Central American nations have already slashed barriers with their biggest trading partner, the United States, as part of the six-nation Central American Free Trade Agreement reached last year.

The agreement, similar to the one Colombia reached in February 2006, has already gone into effect in Honduras and El Salvador and expected to be implemented shortly by Guatemala. Negotiators in both Colombia and the United States have yet to present the final text of their accord, which must still be ratified by each country's legislature.

Colombia enjoys a huge trade surplus with each of the countries involved in the talks, having exported $142 million to Guatemala last year and about $50 million each to El Salvador and Honduras.

Eduardo Ayala, El Salvador's Vice Economy Minister and chief negotiator, said the agreement was important because it was a backdoor way to "build a free trade agreement of the Americas." He added that if an agreement is reached, it might later be expanded to include other countries who've either reached or are seeking a free trade agreement with the United States, including Ecuador, Peru, Nicaragua and Costa Rica. Those countries have declined to participate in talks, negotiators said.

U.S.-sponsored negotiations aimed at a hemispheric-wide free trade zone involving 34 nations, stretching from Canada to Chile, have largely broken down over Brazil and Argentina's insistence that the World Trade Organization agrees first on a formula to slash the subsidies that the United States and other rich countries pay their farmers. ■

Mexico revises 2006 GDP growth upward to 4.0 pc

Mexico has revised upwards its 2006 economic growth forecast to above 4.0 percent with industry, services and exports firing on more cylinders and no signs of a slowdown in consumer demand. Mexico's economy maintained its fastest growth rate in almost six years going into the second quarter and is set to expand more than 4.0 percent in 2006.

For the second time this year, the central bank increased its 2006 gross domestic product growth forecast to a range of 4 percent to 4.5 percent from a previous level of 3.5 percent to 4 percent. In 2005, Mexico's economy expanded at a tepid rate of 3 percent.

Auto exports were now not the sole drivers of the economy and the chance of a spike in inflation in a presidential election year was evaporating, the bank said. "We have balanced growth between services and industry on the side of output and between consumption, investment and exports on the side of spending," Manuel Ramos Francia, the central bank's director of economic research told a news conference recently.

Without predicting economic expansion for 2007, Ramos Francia said the current economic uptick augured well for 2007. "It is clear that the inflation environment and the inflation outlook have improved," Ramos Francia said.

Ramos Francia said greater risks to growth, rather than the political crisis, included higher U.S. inflation, a lack of competitiveness among Mexican businesses and a still high U.S. current account deficit.

In April, the central bank beefed up its initial growth estimate of 3.2 percent to 3.7 percent on the back of strong manufacturing exports and consumer spending, driven by a wave of cheaper mortgages for home buyers and less expensive car loans.

In early May, the Finance Ministry said it expected Mexico's economy to grow more than 4.0 percent in the second quarter of this year, helped by a surge in manufacturing exports and strong investment. Growth in the first quarter of the year was a blistering 5.5 percent over the same period of 2005.

Mexico's auto industry sells most of its production to the United States, its main trading partner, and has been recovering since the end of 2005, giving an added push to the economy.

The Finance Ministry also said the government ran a surplus of 82.2 billion pesos ($7.5 billion) in the first half of the year, up 94 percent from the same period in 2005.

"There is a very high probability that 2006 growth will be over 4.0 percent," said Alejandro Werner, the Finance Ministry's Chief Economist, at a news conference in Mexico City. "We have seen economic behavior that is very healthy and stable."

The expansion in 2006 may match the best year under the administration of President Vicente Fox, who will hand over power at the end of November after a six-year term of spending restraints and record low inflation and borrowing rates. Mexico's $770 billion economy grew an average 1.8 percent between 2001 and 2005. The fastest yearly rate was 4.2 percent in 2004.

Banco de Mexico has reiterated in its quarterly inflation report that consumer prices this year will increase between 3.0 percent and 3.5 percent, within the target range of 2.0 percent to 4.0 percent. Core inflation, which excludes fresh food and energy prices, probably will be in the same range, according to the report.

"In spite of electoral noise in Mexico, economic activity has been strong this year to date, and consumer products in general have benefited as a result," said Javier Astaburuaga, chief financial officer at Fomento Economico Mexicano SA, Latin America's largest beverage company, during a conference call on second-quarter earnings with analysts recently. ■

Brazil to spend more on education & child health to arrest crime

Brazil's President Luiz Inacio Lula da Silva has promised to spend more money on basic education in a bid to lower violent crime in his country that recently resulted in more than 100 deaths in Sao Paulo.

"Sao Paulo was in a state of panic," Lula said. "They killed people, killed soldiers and killed residents who work everyday to earn enough to live." At least 115 people died in five days of gang attacks in Brazil's financial center that began May 12 in what the government says was the worst wave of violence in the city's history. State police faced rioting in 73 prisons.

"Those people in jail are young, most of them between 20 and 30 years old, and we didn't take care of them when they were growing up in the 1980s," Lula said. "How many of them could be working, teaching or studying instead of being in jail?"

The government will also spend more on health care, including subsidized medicine, and build centers to provide basic dental care, Lula said at a rally Goias state. Lower drug costs will allow people to buy drugs for diabetes and hypertension at a tenth of the cost, he said. Pharmacies will be forced to sell smaller quantities of some medicines in a bid to make them more affordable.

"Those with headaches can now go to the pharmacy and buy a single pill, instead of being forced to buy 12, which then sit at home and expire," Lula said. Lula said the government is building 500 centers to provide dental care to the country's poor. "Any poor child can now go and get braces for his teeth -- it's no longer limited to the posh actresses on the soap operas," he said. ■

Rising oil revenue boosts Venezuela's economic growth

Venezuela's economy from April through June grew more than 9.0 percent for a fifth straight quarter as President Hugo Chavez boosted government spending, bolstered by a surge in oil income.

Gross domestic product, the broadest measure of a country's production of goods and services, expanded 9.2 percent in the second quarter from a year earlier after growing 9.9 percent in the first quarter and 10.2 percent in the fourth, the central bank said.

Venezuela, South America's largest oil exporter, has one of the fastest growing economies in the world. Its oil exports jumped to a record $16.6 billion in the second quarter, bolstering government coffers.

Oil industry production, refining and marketing grew 1.8 percent in Venezuela, the world's fifth-largest crude exporter, while non-oil GDP grew 9.9 percent, the central bank said. Construction expanded 27 percent, and manufacturing jumped 6.9 percent, the bank said.

The surplus of the current account, the broadest measure of a country's trade in goods and services, grew to $8.3 billion, the highest level since the bank began reporting quarterly balance of payment figures in 1997. The current-account surplus for 2005 rose 84 percent to a record $25.4 billion.

The capital account, which measures investment flows, had a deficit of a record $9 billion, the bank said. The capital account deficit for 2005 was $16.2 billion, also a record. ■

To take advantage of spiraling global prices…

Chilean Mining Minister calls for exploring new copper deposits

Chile's Mining Minister Karen Poniachik has urged copper producers to take advantage of a global rally in copper prices and increase exploration in the country. Chile, the world's biggest producer of copper, still has new deposits yet to be discovered, she said. The country accounts for 35 percent of copper mined worldwide.

"Now that we have the money to explore, let's do it," Poniachik, who is also chairperson of government-owned copper producer Codelco, said in an interview in Santiago. "We need new deposits if we want to keep growing."

Codelco, the biggest copper miner with about 20 percent of the world's reserves of the metal, is increasing investment to boost production and scout for new deposits in Chile's north, as well as in Brazil and Mexico. Poniachik, 42, said globally there are few projects coming on line as demand for copper increases.

Copper prices have climbed 76 percent this year, on increased demand by nations including the U.S. and China, the two biggest consumers of the metal.

Copper for delivery in July on the Comex division of the New York Mercantile Exchange fell 15.70 cents, or 4.1 percent, to $3.6850 a pound. Prices have declined from a record of $4.040 a pound on May 11.

"This rally has taken everyone by surprise," Poniachik said, adding that companies also need to invest in research and development to find ways to compensate for a decline in the copper content in ore at mines.

Codelco said in January that its production will slide this year and next as the copper content in rock at its mines in Chile declines.

Export revenues up 50 pct

Chile exported $1.963 billion worth of copper in April, up 43 percent from $1.376 billion in the same month last year, as prices for the metal soared, the central bank has said. Chile is the world's biggest producer and copper exports form the backbone of its economy.

Chile's economy projected to grow 6.0 pc in 2006

Chile's economy will grow as much as 6.0 percent in 2006, buoyed by rising investment and record prices for copper, the country's biggest export product, Finance Minister Andres Velasco has said.

Velasco said the economy will probably expand between 5.5 percent and 6.0 percent, following growth of 6.3 percent in 2005, the fastest in eight years, and compared with 6.1 percent in 2004. The economy expanded 5.1 percent in the first quarter from the year-earlier period, the government reported recently.

"That will mark three years of not only strong growth performance, but stable growth performance," Velasco, 45, said in an interview in Santiago. "The first quarter was slightly slower than anticipated, but everybody anticipates a second half of the year that will be faster than the first half."

Growth may pick up further in coming years as the surge in copper prices buoys government revenue, paving the way for more spending next year on items such as education for poor students, Velasco said. He said he expects the independent committee that meets annually to predict the long-term price of copper -- the forecast the government bases its budget on -- to raise its forecast from a current 99 U.S. cents a pound prediction, allowing for a spending increase.

Copper for deliver in July rose 12.3 percent to $3.8855 a pound in May on the Comex division of the New York Mercantile Exchange. Copper prices have surged 90 percent since the beginning of the year, and they are currently more than six times higher than November 2001, when they fell to historic lows.

Copper exports in the first four months of the year were $8.028 billion, 50 percent higher than the $5.344 billion in the same period of 2005. Copper prices have rallied as global demand for the metal outstrips supply and little new production has come on line. Since the start of 2006, copper has almost doubled in price.

Budget Surplus Widens

Meanwhile, Chile's budget surplus widened in the first quarter of 2006 as prices of the metal rose to record highs. The surplus was 1.57 trillion pesos ($3.03 billion), or the equivalent of 2.2 percent of annual gross domestic product, Budget Director Alberto Arenas said. The budget surplus a year earlier equaled 1.3 percent of GDP.

The government-run Chilean Copper Commission said Chile will benefit from average copper prices of $3 a pound this year, higher than previously forecast, Prices will average $2.80 a pound in 2007, the research group said today in a statement in Santiago. In April, the commission forecast average prices of $2.64 a pound this year and $2.44 a pound in 2007.

Mining companies have pushed production to the limit and haven't caught up with rising demand for copper in economies such as China, the largest user of the metal, the group said. Labor negotiations between mining companies and workers this year also will bolster prices, the group said.

Copper production worldwide will lag behind demand by 153,000 metric tons this year, less than the prior estimate of 209,000 tons, the group said. Next year, there will be a surplus of copper of 56,000 tons because of new mines, such as Spence, a project under development by BHP Billiton Plc, the commission forecast. Chile will produce 5.453 million tons of copper this year and 5.655 million tons next year, the group said.

Eduardo Titelman, vice president of the group, declined to estimate revenue this year at government-owned Codelco, the world's biggest copper producer. In April, the group estimated that the Chilean company will contribute more than $7 billion to government coffers. ■

Temporary Occurrence

Velasco, a Columbia University-trained economist, doesn't expect copper prices to stay as high as they are today, which is why the government is saving most of its windfall from taxes on mining companies and from state-owned Codelco, the world's biggest copper company.

“Everything indicates that the extremely high prices of copper we're seeing are temporary,”' Velasco said. Chile “should save the bulk of that windfall, so that you can spread the benefits over a longer horizon.”

Saving the copper windfall will help prevent the economy from overheating and ensure it's not left empty-handed when prices fall, said Alberto Ramos, an economist at Goldman, Sachs & Co.

“They could increase public spending this year,” Ramos said in an interview from New York. “They could be growing at 8.0 percent or 9.0 percent, but that wouldn't be sustainable. The economy would grow in an unbalanced way and the central bank would have to hit the breaks.”

Peso Rally

The committee that sets Chile's long-term copper price, which is used to create the budget, will likely raise the forecast to around $1.30 a pound this year, from 99 cents last year, said Miguel Santana, an economist at Banco Santander Chile SA, the country's biggest bank. “That will allow them to spend more resources next year,” Santana said.

Chile's decision to save its excess revenue from sales of copper has also slowed gains in the peso, which has helped keep the country's exports competitive, Velasco said. In January, the government started saving extra money in dollars in foreign accounts. Chile had $1.9 billion saved overseas at the end of April.

Chile's peso has gained 38 percent since March 2003, sparked by the surge in copper exports and by rising interest rates, which have lured capital to the South American country's fixed-income market. ■

Latin America emerging as global leader in biofuels

Latin America is well positioned to become a global leader in biofuels and renewable energy, and the United States and other countries are keen to explore partnerships in the region to develop them.

Luiz Fernando Furlan, Minister of Development, Industry and Trade of Brazil, said that there are at least 50 examples of new investments in sugarcane for biofuel currently being implemented in Brazil. "There may also be possibilities for joint ventures," he said.

These ideas emerged from a plenary session on Competing in the Global Economy at the World Economic Forum on Latin America, a two-day gathering of leading figures in government, business, academia and civil society being held in São Paulo, Brazil.

Luiz Fernando Furlan, Minister of Development, Industry and Trade of Brazil, told the gathering that he recently received a delegation from California and is now heading to Japan to discuss initiatives in the biofuel realm. He has also held talks with South African officials to explore the possibility of working with that country to offer biofuel to the rest of Africa. There are at least 50 examples of new investments in sugarcane for biofuel currently being implemented in Brazil, said Furlan. "There may also be possibilities for joint ventures," he said. "There is a very serious energy agenda that we can work on together," agreed E. Anthony Wayne, US Assistant Secretary of State for Economic and Business Affairs. "We are embarking on a programme to diversify our energy sources and change the mix," he said. "And Brazil is a leader in ethanol production and deep sea drilling for petroleum." Argentinean natural gas is also on the US radar screen, he said.

Argentina is working on ways to develop compressed natural gas as an automobile fuel export, said Martín P. Redrado, President of the Central Bank of Argentina. "We have had discussions in Northern Africa, India and other places," he reported. His country is also offering incentives for biofuel development from soybeans, he added.

A potential outgrowth of efforts in biofuel could be a broader expansion in biotechnology. "There are only three countries in the world that have decoded the genome of a living organism, and Brazil is one of them," said Furlan. "And we are rich in biodiversity." ■

Peru to India:

Let Us Develop Together

India and Peru have tremendous potential to develop together, said Juan Carlos Mathews, Executive Director, Prompex (Peruvian Export Promotion Agency), who led a Peruvian trade mission that visited this country recently. He said Peru, which had signed a trade agreement with the United States, could also act as a gateway for Indian exports to the huge North American market.

Making a presentation at the Export Import Bank of India (Exim Bank), Mathews listed the attractive features of Peru's economy, saying that the Latin American country had maintained a sustained growth in the last 56 months. "For the last eight to nine years, Peru had maintained an average growth rate of 5.0 percent. While the country posted a growth of 6.7 percent in 2005, it is expected to register a growth of 6.0 percent in 2006," he said.

The flow of direct foreign investment (FDI) into Peru had risen steadily during the last 10 years with a large number of multinational companies expanding their operations to that country, Mathews said. The industries that some of these companies have invested include telecommunications, minerals and energy while others are involved in commercial and financial services.

Peru's economy was on a sound footing, Mathews said, indicating that the country's foreign exchange reserves comfortably covered two years of imports. The country's export growth was a steady 17 percent, he added.

Mathews said Peru offered trade opportunities in as many diverse areas as agri-business, forestry, fishing, chemicals, manufacturing of a variety of products, jerwellery and handicrafts, textiles and apparels and mining.

He said private entrepreneurship had been widespread in Peru with nearly six million people involved in the activities of commercial ventures. Quoting the Global Entrepreneurship Monitor, one out of every three Peruvians was involved in commercial for industrial activities, Mathews added.

He talked about the diversity of ecological and climatic conditions of Peru that had culminated in a unique culinary and gastronomic culture, earning the country the fame of being the gastronomy centre of Latin America.

He referred to the bilateral trade between India and Peru and said that it had risen from \$82 million in 2001 to \$190 million in 2005. "The Potential is tremendous," Mathews added.

Earlier, initiating the interactive session, S.R Rao, Chief General Manager, Exim Bank, spoke of the untapped trade potential existing between India and Peru.

The Peruvian Trade Mission's visit to the Exim Bank coincided with the launch of the electronic newsletter of the Indo-LAC Business, a quarterly bi-lingual (English & Spanish) magazine, sponsored by Exim Bank. Mathews clicked the computer mouse to launch the e-Zine on the Internet, which is expected to serve as many as 120,000 business clients in India and Latin America.

Foreign Trade Peru - India (us $ millions)

Trade	2001	2002	2003	2004	2005	Chg. % 05/04	Jan-Apr 2005	Jan-Apr 2006
Exports	37	22	19	50	79	58.3	41	20
Imports	46	63	61	76	111	45.7	28	35
Trade	82	85	80	126	190	50.7	69	56
Trade Balance	**-9**	**-41**	**-42**	**-27**	**-32**	**21.9**	**13**	**-15**

Tariff & Peruvian Exporters to India (number)

Year	2001	2002	2003	2004	2005	Jan-Apr 06
Traiff item	34	26	40	54	81	34
Exporters	49	36	64	61	66	48

Main Traditional Peruvian Exports to India (US$ millions)

RK	Description	2004	2005	Chg.% 05/04	Shr.% 05	Jan-Apr 06	chg.% 06/05
1	Copper ores and concentrates	34.9	62.1	78.0	85.1	13.5	-61.8
2	Fishmeal	9.3	8.9	-4.7	12.2	1.8	-38.4
3	Cement copper (precipitated copper)		1.1		1.5	1.5	
4	Zinc (o/than alloy), unwrought		0.6		0.8	0.7	
5	Copper, waste and combed	0.4	0.3	-38.0	0.4		
6	Cotton, not carded or combed		0.0		0.1	0.5	
7	Waste of wool or of fine animal hair	0.1	0.0	31.4	0.1		
8	Unimproved wool and their other wool		0.0		0.1		
9	Fats and oils and their fractions of fish	0.1	0.0	14.7	0.1		
10	Raw skins of sheep or lambs		0.0		0.0		

Source: SUNAT Peru Development Market intelligence-PROMPEX

Potential of Peruvian products in India

- Frozen giant squid, octopus and squi
- Frozen mackerel fillet
- Alpaca fiber
- Acrylic fiber
- Floors tiles of tropical wood
- Maca and other natural products
- Food for shrimps
- Natural dyes
- Fresh grapes (red globe)
- Fresh mango (kent)
- Dehydrated fruits (mango, pineapple, papaya)
- Evaporated milk
- Pisco
- Spicy sauces
- Olives
- Dry salty leather
- Tara in dust

Peruvian Gastronomy

- The Peruvian gastronomical culture is the result of factors such as diversity and ecological and climatic reasons.
- 50 Peruvian restaurants operate now in Santiago of Chile (Chile).
- Typical desserts like the *King Kong* and *chocotejas* are exported to Sweden and Puerto Rico and the USA.
- The food's taste is highly appreciated foreign tourists.
- Peru attained the Guinness record of the buffet with greater diversity of the world, with nearly 950 types of dishes.

South Americans Camelids & Pisco

South Americans Camelids: The main markets in 2005 were: Australia (61%) and Switzerland (38%).

Pisco: In 2005, 114 thousand liters were exported, 45% more than the registered in 2004. The main markets were: USA (56%), United Kingdom (12%) and Spain (9.4%).

Lucuma & Chulucanas Ceramics

Lucuma: In 2005, were exported 2,5 MT equivalent to US$ 17 thousands, 4 times more than the 2004. It is exported mainly to Australia (64%), Chile (23%) and Canada (5%).

Chulucanas Pottery: 58% of exports are sold in North American market, the UE participates with 31%, emphasizing Italy (14%) that registered an increased of 25% in 2005.

Source: SUNAT Peru. Development: Market Intelligence-PROMPEX

PERU'S TRADE MISSION TO INDIA

Juan Carlos Mathews (centre) looking at the memento presented to him by S.R Rao (right). New Media Managing Editor Satya Swaroop (sitting) looks on.

Eduardo Garcia (right), Advisor in Ministry of Foreign Trade answering a query from the audience as his Trade Mission colleague Javier Pedraza (left) keenly listens.

Victor Munoz, Dy Chief of Mission at the Embassy of Peru, New Delhi, talking about the easy business visa facilities offered by Peru.

Mathews making a presentation on investment opportunities in Peru.

Mathews launching the e-Newsletter of Indo-LAC Business.

A view of the participants at the Interactive Session

Senior Exim Bank officials with members of the Peruvian Trade Mission

Latin America & Asia are inter-dependent

A Profound Case of Perfect Synergy

Latin America and Asia are increasingly looking across the Pacific for increased trade and investment ties. Asia looks to Latin America as a source for feeding its development, Latin America sees Asia as a large potential market for its products. Investment and trade between the two regions continues to increase at a high rate. To further look at this growing relationship, the Americas Society and Council of the Americas, in collaboration with the Asia Society, brought together private sector and government leaders and academics from the two regions for the first Asia-Latin America Conference held in New York on May 17, 2006.

The programme offered participants a unique opportunity to look at the cross-regional development of investment and trade relations and to more broadly analyze economic growth. Our keynote speakers, representing an Asian and a Latin American perspective, included: Angel Villalobos, Mexican Undersecretary of International Trade Negotiations and Neelam Deo, Indian Consul General in New York. The two panels featured both academic and business perspectives on inter-regional ties with presentations from:

- Renato Amorim, Secretary of the China-Brazil Business Council, Brazil
- Richard Feinberg, Professor and Director, APEC Study Center, University of California, San Diego
- Joydeep Mukjerji, Director, Sovereign Ratings Groups, Standard & Poor's
- Daniel Rosen, Principal, China Strategic Advisory
- Mitchell Silk, Partner Banking and Projects Group, Allen & Overy
- Charles Tang, Chairman, Mercosur, China & Pacific Chamber of Commerce

This summary provides an overview of the broader themes discussed over the course of the conference. Overall regional relations are highlighted but with a specific focus on countries that tend to look more to counterparts across the Pacific.

Background

Latin America and Asia have increasingly recognized the need to become more intertwined as the globalized world draws the regions closer together. One way to highlight this inter-connectedness is by the membership of countries from one region in multi-lateral groups of the other. For example, in Latin America, the Inter-American Development Bank membership includes Japan (member since 1976) and South Korea (member since 2005), while in Asia, the Asia-Pacific Economic Cooperation (APEC) includes Chile (member since 1994), Mexico (member since 1993) and Peru (member since 1998).

As Asia looks to Latin America as a source for feeding its development, Latin America sees Asia as a large potential market for its products. Investment and trade between the two regions continues to increase at a high rate, notwithstanding the lack of formal government-to-government agreements.

Summary

The Latin American-Asian relationship, while growing among many countries in the respective regions, is generally analyzed by looking at the ties between China and India and the Southern Cone countries and Mexico. Economic issues, such as trade and investment, dominate an agenda where, as Mitchell Silk noted, there is little discussion over domestic political issues. This general absence of politics in the economic agenda has allowed the two regions to skirt politically motivated trade and investment deals. As both regions move toward even closer ties, economic growth rates may be an important factor in determining the scale and shape of the relationship.

Trade

Latin America-Asia trade relations, with a China-specific focus, have grown at great speed in the last few years. Since 1999, Silk pointed out that trade with China has increased 528 percent to US$12.2 billion, with 85 percent of Latin American exports to China coming from the Mercosur bloc. Building on this trade growth, Feinberg and Silk saw free-trade agreements (FTAs) as the next step in further solidifying the cross-regional economic relationship.

In November, 2005, Chile became the first Latin American country to sign an FTA with China; the agreement removes trade tariffs on 92 percent of Chile's exports to China and 50 percent of China's exports to Chile. While not yet moving towards an FTA, Silk highlighted Argentina's unwritten understanding with China that efforts should be made to more than double overall trade to an estimated US$7 billion. Consul General Deo complemented the China analysis in his description of the "preferential trade" that has emerged between India and Mercosur and Chile. In 2003, India sent US$1.7 billion in exports to Latin America. The factors leading to these trade increases can be explained by a number of recent developments in both regions.

With China seeing unprecedented growth, it continues to look abroad for economic partners and sources for raw materials. According to Amorim, China has been a major driver behind the metal demand in Latin America. The Chinese demand for soybeans and other agricultural products from Latin America has also soared. Beyond specific products, Silk shared a number of other reasons for the rapid growth of China-Latin America trade, including President Hu Jintao's 2004 visit to Argentina, Brazil, Chile and Cuba. China has also been sending some of its best dealmakers to the region, producing 20 major bilateral agreements just with Brazil in the last 28 years.

Looking at Mexico, Undersecretary Villalobos discussed his country's preferential access to the Japanese market; Mexico is the second country with which Japan has signed an FTA. He also drew attention to the Economic Complementation Agreement being negotiated with South Korea to liberalize trade and increase investment opportunities. Mexico is also evaluating a possible bilateral trade relationship with Singapore.

Investment

Asian investment in Latin America, like trade is driven by access to raw materials and natural resources. China also seeks access to Latin American products and services higher up the value chain, such as oil drilling and refining and Brazilian satellite and aircraft technology. In turn, China has pledged to invest in Latin American infrastructure with the goal of increasing the efficiency of product delivery to the Chinese market. For example, to much fanfare, President Hu Jin Tao promised US$100 billion in investment, including billions for road, railway and port improvements. Amorim discussed how the euphoria of this pledge led to resentment when investment promises did not materialize in mining, energy or other types of infrastructure.

In total, Latin America receives almost half of China's foreign direct investment. A few examples of Chinese investments and joint ventures with South America that Silk noted include:

- A US$2 billion, 20-year joint venture between Companhia Vale do Rio Doce (CVRD) and
- Baosteel, a Chinese steel maker, for the supply of iron ore to China.
- A US$2 billion joint copper development venture between China Minmetals Codelco of Chile.
- A Venezuelan invitation to China for participation in oil-related projects, including exploration in the Orinoco belt.
- A US$100 million purchase by China's Sinochem Corporation for a stake in an Ecuadorian oil field.

Economic Growth

While once being on an even development keel, Latin America now has some lessons to draw from the Asian experience. Joydeep illustrated the inter-regional economic gap when pointing out Asia's strength in terms of economic growth and monetary stability. Labor product growth in China and India has increased steadily while decreasing throughout much of Latin America. A possible explanation for this is Latin America's relatively small pool of cheap labor and its high demand for skilled labor.

According to Rosen, Latin America is 50 years away from reaching its maximum work force potential. On the investment side, Feinberg cautions that some of the US$50 billion in foreign direct investment flowing into China roughly equal to Latin America's total may have gone to Latin America if the region were more competitive. Other factors mentioned by Joydeep for Latin America's slower economic development include macro-economic instabilities, low savings rates, public and private sector debt burdens, weak domestic capital markets, and difficulties in achieving a political consensus for pro-growth policies. ■

Upcoming Events

The Americas Society and Council of the Americas are working with regional partners to host the following 2006 Latin American Cities Conferences from July to August:

• Bogotá, Colombia: June 14. "Colombia in the Eyes of Wall Street: A Decade of Strategic
• Alliances"
• Santiago, Chile: June 20. "Chile and the Region: Opportunity or Threat?
• Lima, Peru: July 7. "Peru: Development and Investment with Social Equity"
• Mexico City, Mexico: July 27. "Mexicos Role in the Global Context: Challenges for the New Administration"
• São Paulo, Brazil: August 4. "Brazil: Creating New Global Opportunities"
• Montevideo, Uruguay: August 9. "Opportunities for Uruguay in the Global Economy: Regional and International Challenges"
• Buenos Aires, Argentina: August 10. "Argentina: Fostering Conditions for Investment and Sustained Economic Growth".

Venezuela - the Valley of Endless Spring

beautiful women, bountiful nature & plenty of fun

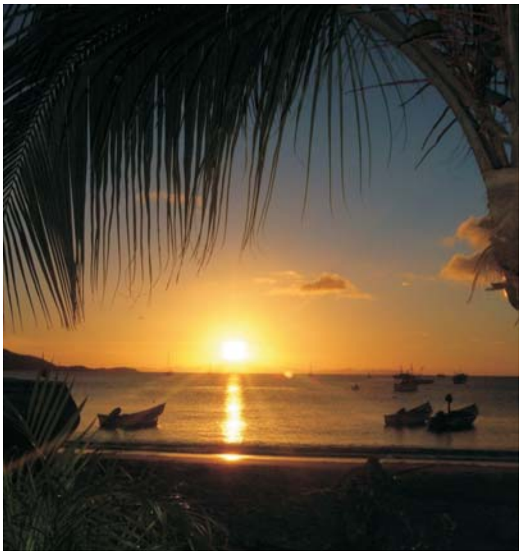
Venezuela is not just a land of beautiful women as one would think at the outset. True, this country has produced more winners of the famous Miss Universe title than any other country. Located on the Caribbean coast of South America, Venezuela shares its borders with Guyana, Brazil and Colombia. Bestowed by nature with bountiful of oil reserves, it is a rich Latin American country. The capital city of Caracas is a busy and happening place. The beach resort of the Margarita Island is popular with people relaxing and getting a tan. Angel Falls are among the most spectacular sights of the world and comparable to Niagara. The city of Maracaibo , an oil boom town, in the west of Venezuela offers many exciting things to the tourists. About 160-km to the West of Caracas and situated in the center of the country is Valencia, its second largest city and the country's fastest growing economy.

Caracas

Santiago de León de Caracas, the capital of Venezuela, was founded in 1567 by the Spanish conqueror Diego de Losada. It's placed in a narrow but long valley, surrounded by the picturesque Central Mountains and El Ávila. The valley is about 900 m. above sea level, and is named "The Endless Spring." In the biggest and most important city of Venezuela the tourists find everything they need. Caracas, the city where Simon Bolivar, the legendary Liberator was born, is surprisingly modern. Bolivar waged the War of Independence across South America to liberate the region. He is a hero everywhere, but especially Caracas.

Caracas is divided into districts called Urbanizaciones. Some of the notable ones include El Silencio, an historical district where the Teatro Municipal is located. El Conde contains much colonial history and an amusement park, Parque Central, known for its shopping centers, San Bernadino, a residential area where the Colonial Art Museum stands, Sabana Grande, the city center cluttered with nightclubs and restaurants, Chacaito, famous for its fashion boutiques, art galleries and cafes, Las Mercedes, an "American-style" residential zone, and Altamira, abundant with chic nightclubs, pleasant parks and boasts the Cleopatra's Obelisk.

Margarita Island



The Isla Margarita is a very popular beach resort, dotted with hotels and duty-free shops. La Asuncion is the capital of the island. It is a sleepy colonial town complete with narrow cobblestone streets, a 17th-century cathedral and a Spanish fortress (El Castillo de Santa Rosa). It is a daytrip all beach-hounds are bound to make during their stay on the island. Besides the beaches, the natural attractions of the island are lagoons and mangrove swamps. The best beach is found at El Agua on the east coast. The north has some of the island's most spectacular scenery. Food is very cheap on the island. A family of 5 can more than live off of a week of groceries here for about $74.00 roughly.

Juan Griego

This is a small but very famous town for only one thing - its terrific and never-fading sunshine. There's no better place to watch the spectacular sunset. Juan Griego is placed in a small bay with an old and tiny Spanish fort. Tourists love it.

Pampatar

Pampatar is a quaint and quite beautiful town. It was founded in the 1530s and named after a Guaqueri Indian word meaning "town of salt". Indeed, a salt flat mine is close by to this day. There is a lot of mystery and beauty to explore in this charming town, especially in the fine old colonial buildings. Spaniards settled here because of its strategic location, a deep water-calm port and wealth produced by the existence of a natural salt flat mine. Yachts, ships, and wooden boats are anchored in the quiet bay giving a picturesque contrast. Location: 10 Km east from Porlamar, the largest city of Margarita island. It's a lovely city! It has several shopping malls, with the Sambil Mall as one of the highlights.

Maracaibo

Maracaibo, Venezuela's second largest city Nueva Zamora de Maracaibo is located on the shores of the Maracaibo´s Lake. It's the capital of Zulia state and the commercial center of the western region of the country. The town was restored nicely. Here one finds the Botica Nueva: Venezuela's first elevator building; Chiquinquira Basilic, the most famous landmark of the downtown and just across the street the Plaza de la Virgen de Chiquinquira y todos los Santos, next to it is the Plaza Bolívar, which is surrounded by the Goverment

Palace, the Baralt Theater, and the Casa Morales place, the historic site where the Declaration of Independence was signed. The neighborhood of Santa Lucia, which is just behind it, is also worth a visit.

Maracaibo abounds with fine galleries and museums some of them are the MACZUL, South America's largest contemporary art museum; Lía Bermudez Art Center, and the Theater of Fine Arts. There are a few well-stacked markets scattered around Maracaibo where one can buy things made by the local Guajira tribe.

The city offers great night life with a diversity of nightclubs and cafés which could be found on the main streets (72th, Dr. Portillo, Santa Rita Avenue), also large shopping centers as Centro Sambil, Doral

Center Mall, Galerias Mall and Centro Lago Mall located in the shores of the lake.

A nice place to go is the Vereda del Lago park, a big green park located in the shores almost next to the downtowm with a magnificent view of the lake, the bridge and the city. Maracaibo is 500 km west of Caracas.

Lake Maracaibo

Lake Maracaibo is not, in the true sense a lake, as it has an entrance to the Caribbean. Due to this, the water is a mixture of sea and fresh water. All the oil exported from Maracaibo, from local oil refineries, is carried by oil tanker ships on their journey to the US and other oil importing countries.

Cumana

Cumana was the first city founded in the Americas in 1521 by Gonzalo de Ocampo. It's located in the Gulf of Cariaco in the Oriente, East of Venezuela. Capital of the Sucre state, it has a rich colonial legacy - forts, castles and churches. The Sucre state is one of the wildest of all Venezuela and not known to many tourists but offers a lot of places, which are unique.

Maracay

Maracay is the capital of the Aragua region. It is located west of Caracas. The city was founded in 1701 but did not really expand until the early 1900's. Today one will find Venezuela's largest Plaza Bolivar in Maracay. It is the

Tourism Venezuela's strategy for economic development

Gonzalo Capriles, director of the industry program IBERPYME from the Latin American Economic System, has said tourism is currently a strategy for Venezuela's social and economic development.

Talking to newspersons recently at the end of the Latin American Meeting of Tourism, Infrastructure and Services, held for two days in Caracas under the slogan "Building Tourism," Capriles highlighted Venezuela's potential with a basic infrastructure, which needs support, training and orientation of this sector's businesspeople.

"This is an important sector darkened by development and oil incomes, but it is a strategy to generate hard currency income, jobs, and use sustainable natural beauty," he said. Capriles mentioned possibilities of financial cooperation among local public and private sectors, technical assistance and consultancies to foster Venezuela as a destination of worldwide importance.

Sponsored by SELA (Latin America and Caribbean Economic System), the recently held Ibero-American Tourism Meeting has stressed on an agenda centered on alternatives for business, adventure, eco-tourism, beaches and parks.

Capriles said the event constituted an opportunity to consolidate Venezuela as an important world destination. The meeting was also intended to develop national tourist awareness, highlight public policies to develop the sector, and share projects that allow the interrelation of services in the region.

National and international financing, modalities, experiences in tourism development, infrastructure, and derived services will be some of the issues to submit to collective analysis and reflection.

entrance to the Henry Pittier Park, which was founded in 1953 and covers 107800 ha, stretching from the beaches in the north and south towards Maracay.

Icecreams are popular here. These are called 4D and their Nocciola icecream (hazelnut) is simply great fun.

Puerto La Cruz

This is one of the country's biggest resorts. Here one can find everything: from luxury hotels, posh districts and enormous shopping centres to popular streets. Puerto la Cruz is undoubtely a very fun place. A walk through the Paseo Colón in the sunshine is an unique experience, sitting in any restaurant and eat their famous empanadas will take one to glory. When getting around, one must go to Mochima, a National Park which has plenty of small islands with white-sandy beaches. One can go as well to Santa Fé, a little town up in the near mountain, which offers superb views.

Merida

Mérida is named Ciudad de los Caballeros, "gentlemen's city," after the kindness of its men. It is located in the southern state of Mérida. It is known for having the highest and longest cable railway of the world. The city has many interesting places to visit such as Los Áleros village, apartaderos town, mucubují lagoon and many others. Prices are very reasonable and there are plenty of hotels and posadas to stay.

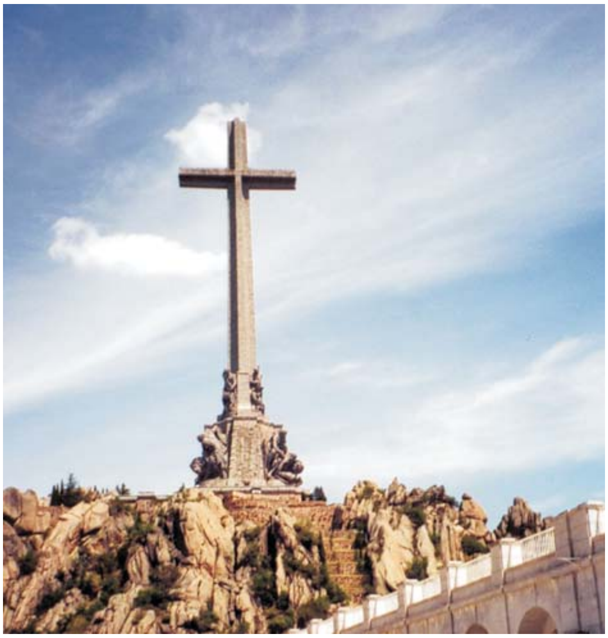
Barquisimeto

Barquisimeto was one of the oldest Spanish settlements and has grown into Venezuela's fourth largest city. The city exhales a mixture of colonial days and modern times. In 1812, an earthquake nearly removed the city from the map, but it was rebuilt again and some of the old colonial houses were saved. The city centre is quite fashionable with its plaza and statue of Bolivar. Must-sees are the ultramodern cathedral, the Palacio Municipal and the excellent Museo de Barquisimeto (located at Carrera 15) that exhibits a fine collection on the history of the Barquisimetos. This city is well-known in

Venezuela for its abundant sunshine. The sky turns different hues, offering a lovely spectacle.

Coro

One of the oldest Venezuelan cities was founded in 1527 by Juan de Ampies. In the old colonial down town one can admire many historically interesting buildings, which made the UNESCO declare the city in 1993 a World Heritage Site.



A feature that immediately catches the visitor's attention is the houses' colorful contrast. Deep indigos alongside with intense burgundy and ochre yellows give the town a picturesque tropical gaiety. You can enjoy Coro simply walking on the paved streets or under exuberant trees on the enchanting promenades.

Coro's cathedral, a valuable architectural work from the XVI century, is well worth a visit. It was the first cathedral built in the country and the first diocesan see. This town has been since colonial days one of the most religious centers in the country.

Cudad Guayana

It is located on the banks of the Orinoco and Caroni rivers. This is the industrial area of Venezuela. There are Steel and Aluminum smelters here due to the Guri Dam Hydro Electric facility where more than 75 percent of the Country's electricity is produced. There is also a large Iron Ore deposit close by and this is transformed into high-grade iron ore pellets in local factories. The bulk of the areas production is exported. The state of Bolivar is also rich in bauxite, gold, diamonds and various kinds of clays for brick production. ■