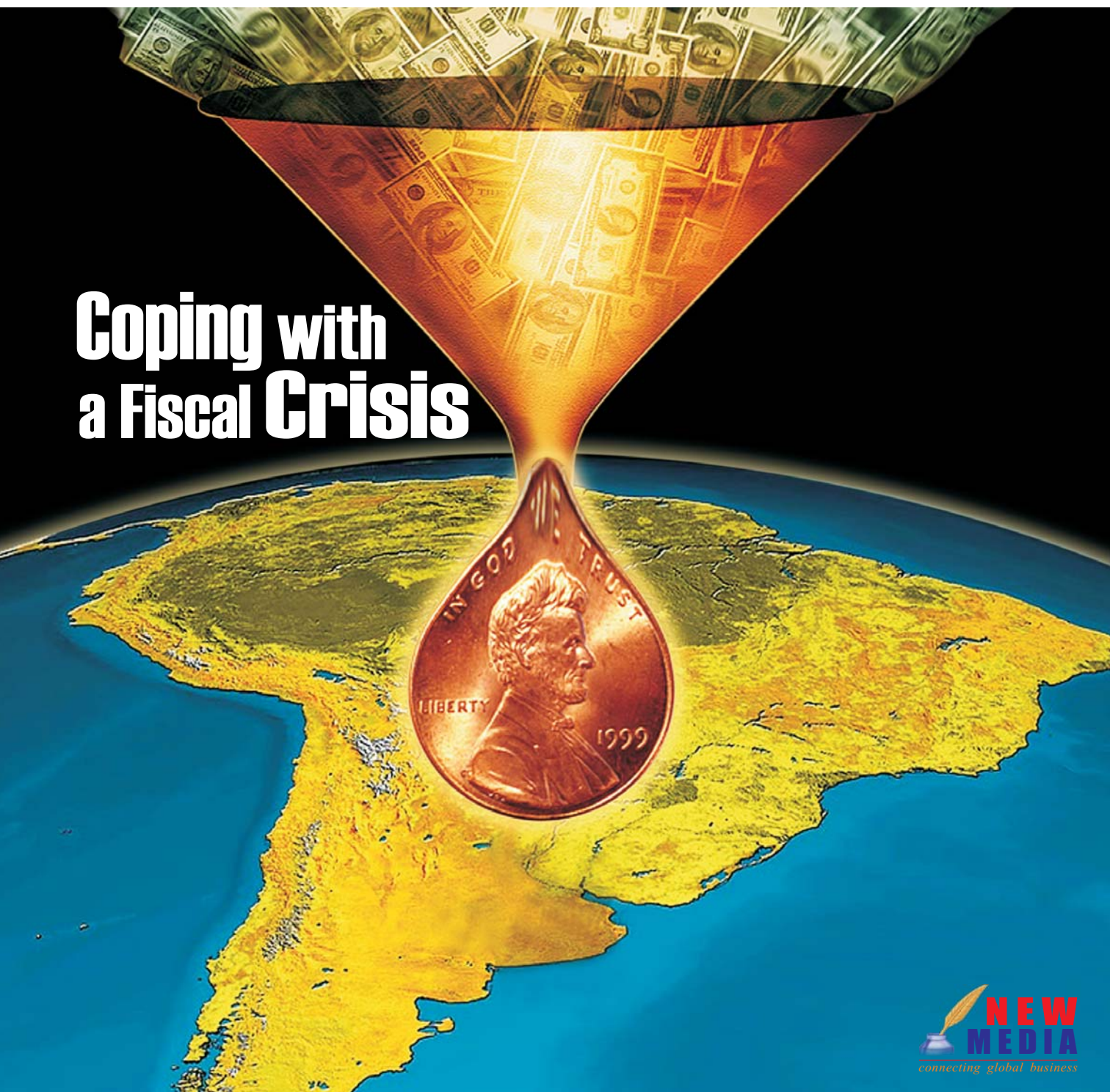


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Coping with a Fiscal Crisis



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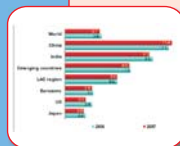
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Dear Reader,

Greetings. The world is reeling under an unprecedented financial crisis and resultant recessionary conditions. Originating in the United States and engulfing the entire developed world, this global meltdown has touched every country across the globe. The Latin America and the Caribbean (LAC) region, by virtue of its geographical proximity to the US and its dependence on the American market for its exports, should have been the worst hit. But it wasn't, thanks to the economic stability the LAC region has achieved in the last five to six years. Economic reforms initiated by most countries of the region have helped them attain a fair degree of fiscal resilience to face the current recessionary conditions. The cover story deals in depth how the LAC region is better prepared to face the meltdown than most other countries, based on a report prepared by Alicia Barcena, Executive Secretary of the United Nation's Economic Commission for Latin America and the Caribbean (ECLAC). We present you a superb analysis of the LAC fiscal management scenario by R. Viswanathan, India's Ambassador to Argentina. The Focus section of the magazine carries a comparative study of the LAC countries by the Organization of Economic Cooperation and Development (OECD) calling for more reforms and better public services in the region. In an in-depth report, Export Import Bank of India projects slowing down of the LAC region's economic growth though India's exports to it have been on the rise in recent years. In an equally well researched study, Exim Bank highlights the advantage that India's low-cost engineering consultancy services have in a competitive global market. Infrastructure is one area which has been the focus of development in major LAC countries, thanks to institutional, government and private sector investors. We carry a report. In the news section we have the Andean Development Corporation (CAF) granting Paraguay full membership of the organization and a loan of \$500 million as a civic amenities loan. India's central State of Madhya Pradesh is gradually emerging as a global focal point for promoting tribal art and culture through an international film festival, the second edition of which is being held in February, 2009. The issue carries a write-up on the event. The magazine contains the usual Spanish section and other regular features.

We wish you a very happy and prosperous New Year.



Satya Swaroop

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After Six Years' of Economic Growth & Stability...

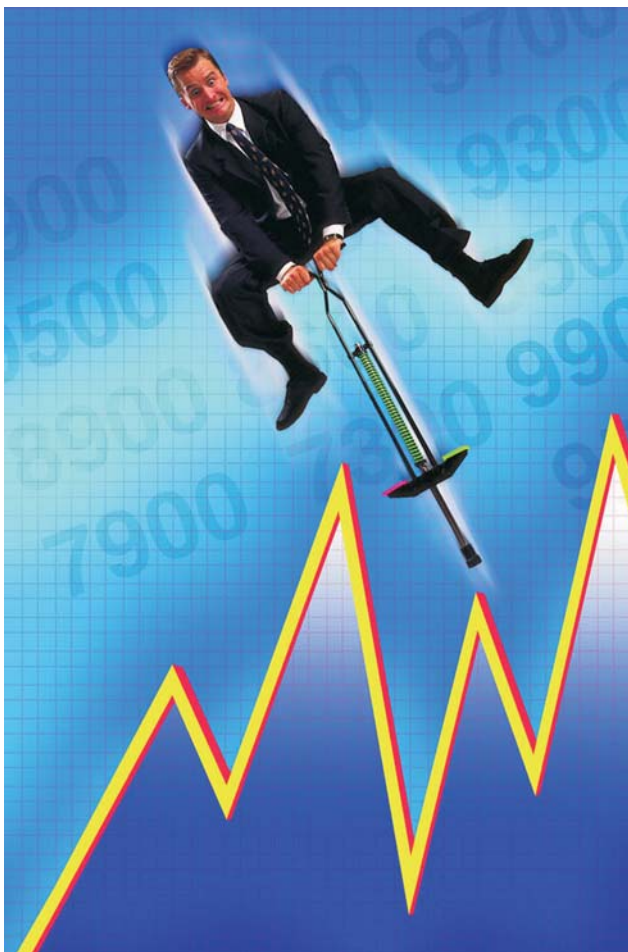
LAC Better Prepared to Face Global Financial Crisis

- UN's ECLAC Report



The cycle of economic bonanza appears to have reached its end in 2008 for Latin America and the Caribbean, after six years of consecutive

growth in the region as a consequence of the current global financial crisis but today the region is better prepared than on previous occasions to handle a calamity of such a magnitude, a United Nations agency report has said. The Economic Commission for Latin America and the Caribbean (ECLAC) has projected growth in the LAC region in 2009 at 1.9 percent, scaling it down from 4.6 percent of the previous year. ECLAC in its report - Preliminary Overview of the Economies of Latin America and the Caribbean 2008 - presented recently by Executive Secretary Alicia Bárcena projected a higher unemployment rate of 7.8 percent-8.1 percent in 2009 against 7.5 percent in 2008. The ECLAC report said that between 2003 and 2008, market labour indicators also improved and poverty decreased. In a favorable external context, almost all countries in the region gave priority to achieving macroeconomic balance, with surpluses in external and fiscal accounts. Today, the region is better prepared than in previous occasions to handle a crisis, but in no case is it immune. Following are excerpts of the report.



The situation of Latin America and Caribbean economies in 2008 is akin to "flying like a glider", supported by the impulse of previous years. The motors of growth were turned off and it is uncertain when they will be turned on again, or how the landing will be. Informal employment is expected to rise and inflation will decrease significantly, from 8.5 percent this year to approximately 6.0 percent in 2009.

Impact of the Crisis

The international crisis is impacting Latin America and the Caribbean through two main channels: the real and financial ones. In the real economy, exports are already decreasing, especially in countries most linked to developed economies in recession, such as Mexico and some Central American nations. The drop in the price of basic products, particularly fuel, metals, and food, will affect the terms of trade in the region, which, although they continued to improve during 2008, are expected to worsen in 2009.

Another effect is the reduction of remittances from migrant workers, which provide significant income to some Caribbean and Central American economies.

Moreover, falling demand for tourism services will further hamper these countries' levels of income. Lastly, foreign direct investment flows are also expected to decline.

External Financing Gets Expensive

As for the financial channel, external financing, both for private companies as well as for sovereign debts, has become more expensive, and availability of credit has been severely restricted. Both effects have already led to a strong depreciation of local currencies in several countries, which, although positive in terms of competitiveness, also upsets the balance sheets of those indebted in dollars and restrains inflation from lowering further.

The crisis may have a negative impact on income distribution, given that the rise in unemployment and informal labour will especially affect low-income households and those headed by women.

Solutions to Stimulate Economies

The depth and length of the crisis are still uncertain and depend on the effectiveness of measures taken to stimulate demand and the normalization of credit markets in developed economies.

To address global problems, coordinated solutions are required. Stimulating demand must not only come from developed countries, but also developing ones, and this requires greater integration and coordination

of macroeconomic policies in the region. For many countries, it is vital to count with adequate resources provided by international agencies in order to finance the implementation of countercyclical policies.

Strengthening Intraregional Trade

Additionally, intraregional trade and integration - understood in its broadest sense- should be fomented. ECLAC believes it is important to advance towards the establishment of a new international financial architecture and a more active role of regional financial bodies, which should provide the liquidity needed to finance these efforts

With annual economic growth for Latin America and the Caribbean being projected at 4.6 percent, 2008 will mark both the sixth consecutive year of growth and the end of a period which has very few precedents in the economic history of the region. Between 2003 and 2008, regional GDP growth averaged nearly 5.0 per year, with per capita GDP increasing by over 3.0 per annum. This growth was coupled with improvements in labour-market indicators and a reduction in poverty in the region. One of the most outstanding features of this period has been the fact that, in most of the countries, policymakers have placed priority on maintaining macroeconomic balances, which has helped generate surpluses in both their external and their fiscal accounts. The highly favourable external economic environment of the last few years has been another contributing factor.





These results will not be repeated in 2009, however. Growth in 2009 is projected to be 1.9 percent. This estimate is built on a scenario in which the global economy, in general, and the regional economy, in particular, will gradually begin to make a recovery during the second half of the year. Growth projections for next year are much lower than for the period that has just ended. In view of this situation, the governments of the region should make every effort to deploy countercyclical policies in order to ward off an even sharper economic decline. While the informal sector of the economy expands, the behaviour of international food and fuel prices, on the other hand, indicate that inflation will subside from 8.5 percent in 2008 to around 6.0 percent in 2009.

Causes of the Crisis

In just slightly more than a year's time, what had started out as a problem in the subprime mortgage market in mid-2007 turned into a systemic crisis that crippled the credit markets of the developed countries. This will undoubtedly have an extremely negative impact on the real economy, although, as of the end of 2008, it is still too soon to accurately gauge the full impact of the crisis.

The depth and duration of the recession will depend on the effectiveness of steps taken to stimulate demand and offset the slump in private spending, as well as on the normalization of credit markets. It is to be hoped that the array of measures implemented

by the United States Federal Reserve and other central banks will succeed in containing systemic risk and that, in conjunction with the recovery of their financial systems as well as fiscal policy measures, the developed economies will begin to emerge from the depths of the crisis in the second half of 2009. This is the fairly optimistic scenario on which the growth projections for the region for 2009 are based.

Although the region is better prepared than before to handle a crisis, there are a number of channels through which its effects are likely to be transmitted to the LAC economies. First, the global slowdown will drive down export volumes and prices, remittances, foreign direct investment and the demand for tourism services. In addition, external financing will be more expensive and will be more difficult to obtain for the countries of the region.

The deterioration of labour-market indicators and the decline in remittances will have a negative impact on income distribution in the region. Under current circumstances, this means that public policymakers will face the double challenge of implementing countercyclical measures to stabilize economic growth and of developing instruments to shield the most vulnerable sectors of the population from the effects of the crisis. The fiscal resources available to each country for use in financing these types of policy actions differ considerably, although public finances in general will come under greater pressure, given the expected decrease in fiscal revenues. ■



Crisis a Chance to Reform Global Economic Order

- Mexico's President Felipe Calderón

Earlier, addressing an ECLAC meeting at the Commission's headquarters in Santiago, Chile, Mexico's President Felipe Calderón said, "The global financial crisis is an opportunity to reform the international economic order, in which there should be more State regulation and participation of emerging economies."

In November, President Calderón, who was on an official visit to Chile, delivered a lecture at ECLAC, which was attended by Chilean government ministers and officials, representatives of the diplomatic corps, academics, and officials of the United Nations.

During his presentation, President Calderón asserted that in the face of the current economic crisis, Latin America and the Caribbean should take steps to heighten credibility and confidence towards the future.

Countercyclical measures must be adopted in a coordinated way, he added. "There must be discipline in public finances and governments should avoid the over indebtedness of their economies. I believe in expansive countercyclical measures, such as public spending on infrastructure or investment," he said.

The Mexican President called for reforming national and the international financial systems. "The State should play a clear, firm and regulatory role to correct what the market was unable to, and which led us to the crisis," he said.

A global financial structure must be created that is capable of understanding and intervening the new economic context. "There should be greater participation from emerging economies and swifter decision-making processes. International organizations, duly capitalized, must intervene in order to compensate the contraction in credit we are seeing in developing economies," said President Calderón.

However, governments should avoid resorting back to protectionism, he said. "That would be a false solution to this crisis. I believe the role of trade and the market is a subject that should be debated in ECLAC, in all of Latin America and in the world. In this global economy, creating barriers for trade and investment will only exacerbate the recession," warned President Calderón.

He called on Latin America to work together to address the economic situation of this global crisis. "Above all, I call on peoples and governments in the region not only to once again view the future with hope, but also work determined to give it direction, and consider the current situation as a great opportunity," President Calderón added.



ECLAC Executive Secretary Alicia Bárcena said the international financial crisis provided an opportunity to do things differently. "Today, we have this opportunity and it is our duty to make the most of it. The recent G-20 meeting and the participation in it of Argentina, Brazil and Mexico was a historic event, an opportunity for the voices in the region to be heard, and take hold of destiny," she said.

Bárcena also sent out a message to those three countries: "Avoid over-regulating markets, protectionist positions in trade, protect social spending, invest in infrastructure to generate employment, but take care of the environment, and demand solidarity for the most vulnerable from developed countries with the same magnitude, priority and urgency with which those countries rushed to rescue the financial system."

Bárcena said, "Today's urgent challenges are enormous. Mexico, and all of Latin America and the Caribbean, can be sure that they can continue to count on ECLAC. We need more of Mexico here in the South. The redesign of the international financial system is providing us with an opportunity to confirm that multilateralism is the method and the instance for this change."

Chile's \$4bn Economic Rescue Package to Ward off Crisis

Chile's President Michelle Bachelet has announced a US\$ 4 billion economic stimulus package to boost the country's economy as a result of the global financial credit crisis.

Worth 2.8 percent of the country's GDP, the package will be financed with funds from the country's Sovereign Wealth Funds and a sovereign bond issue.

It will increase 2009 public spending by almost US\$ 1.5 billion. However, this means the government will post a fiscal deficit of 2.9 percent of GDP in 2009 and requires suspending legislation that forces the government to post a structural surplus of at least 0.5 percent of GDP.

Announcing the plan recently, President Bachelet said it aimed to create 100,000 jobs, would increase public spending by nearly US\$ 1.5 billion with US\$ 700 million earmarked for public works projects and would include handouts for the most vulnerable families as well as a temporary cancellation of stamp duty.

The plan also includes tax incentives and measures designed



to provide SMEs with easier access to financing.

It would also lower employer contributions for SMEs, include tax rebates and deprive the government of around US\$ 1.5 billion in fiscal income, added President Bachelet.

The plan also includes a one-off payment of US\$ 63 for all poor children under the age of 18. The payments, which will be made in March when the school year starts, are designed to help an estimated 3.7 million people. ■

Paris Meet on LAC on Jan 26

The OECD Development Centre, the Ministry of Finance, France, the Inter-American Development Bank and UBIFRANCE are organizing the International Economic Forum on Latin America and the Caribbean 2009 on January 26. This high-level event will bring together a selective group of ministers, central bankers, economists and representatives from the public and private sectors to discuss key economic issues for Latin America. Participation is free of charge and open to all individuals, organizations and companies interested.

Date: 26 January, 2009 (8.45 to 19.00)

Venue: Paris - Conference Centre of the French Ministry of Finance (139 rue de Bercy)

The Forum will last a full day and will be structured around five sessions addressing the following issues:

- How can fiscal policy reinforce Latin America's economic development?

- What's the region's economic outlook for 2009?
- How can inter-regional business partnerships be strengthened?
- How do multinationals contribute to the region's economic development?
- Where and how can business opportunities be seized?

Sessions 1-4 will be plenaries where the topic will be introduced by a speaker and a selective group of discussants will offer their comments. An initial roundtable discussion will take place, led by a moderator, and the final 10-15 minutes will be opened to questions from the audience. Session 5 will be split into 4 panels around a specific sector each: (i) transportation; (ii) environment; (iii) fair trade and sustainable tourism; and (iv) infrastructure and water sanitation. Each panel will be moderated by an expert on foreign trade and is particularly targeted to companies and firms operating in each area of activity. ■

The Art of Coping with a Fiscal Crisis

By R. Viswanathan, India's Ambassador to Argentina, Uruguay & Paraguay



Latin America has surprised the conventional wisdom. One would have expected the Latin American economies to come crashing down as a fall-out of the historical crisis in the USA and Europe. In the past, Latin America used to sneeze when the US caught a cold. Not any longer. Not a single bank or financial institution went bust in the region while the US and Europe faced collapse of companies and banks with turnover of more than that of the GDP of many of the Latin American countries. None of the Latin American countries have gone to the International Monetary Fund (IMF) for rescue, even as some East European countries have done so. While Iceland, situated far from the epicenter (USA) of the financial earthquake collapsed and had to seek rescue from Russia, none of the Latin American countries, which are in the proximity of the earthquake zone have suffered serious damage. There has been no panic summit meetings or rescue packages or nationalization of banks in Latin America.

In 2009, the US economy is projected to contract 0.7 percent and the Euro economy by 0.5 percent. The advanced economies will suffer recession in 2009. But in Latin America, the growth story is going to continue, but at a lesser pace.

Welcome to the New Latin America! The region has withstood the external shock and surprised the stereotypes.

According to the October report of ECLAC (UN Economic Commission for Latin America and Caribbean), The economic slowdown and financial crisis in the United States will have a relatively modest impact on the Latin America and the Caribbean region in 2008, except for its exports. Compared to previous shocks in the United States economy and the world at large, Latin America and the Caribbean (LAC) is much less vulnerable than in the past, with a current account surplus, sounder public finances, a lower level and better profiles of public and external debt, and larger international financial reserves. Considering the severity of the global shocks, LAC economies are, on average, weathering the crisis significantly better than in the past.

The LAC region is relatively well placed to withstand a slowdown in the United States and the resulting direct and indirect effects on its exports. The region also enjoys strong fiscal and debt positions that may discourage drastic shifts in financial flows. Latin America is better prepared because of the progress it has made in macroeconomic management."

What does the IMF say?

This is even more important because of the love-hate relationship between the institution and many of the region's left-leaning governments and intellectuals. According to the October report of IMF, the LAC region is expected to deal with the current global shocks better than in previous crises. This reflects the progress many countries in the region have made in improving their macroeconomic fundamentals over the past decade. The



substantial buildup of international reserves, stronger fiscal positions, more credible monetary policy frameworks and improved structure of public debt have made Latin America more robust to external shocks.

The region is better placed than in the past to absorb the sharp slowdown foreseen in global growth. The high level of reserves coupled with strong banking systems, lower public debt levels, reduced public sector financing requirements and generally flexible exchange rates provide Latin America with more room to deal with adverse global developments than in the past. One major plus, so far at least, has been the stability of money and bond markets in Latin America despite the turmoil in financial markets in the advanced economies. Moreover, reserve levels are high, and flexible exchange rates provide room to maneuver in a number of countries. Latest available financial soundness indicators continue to point to the overall robustness of banks across the region.

LAC region's resilience to shocks has increased in recent years. Public debt levels and financing requirements have been reduced, and external current accounts have been strengthened. Moreover, the credibility of macro policy frameworks in many countries has been strengthened, while flexible exchange rates have provided an important shock absorber for several countries. Financial sectors too are more robust, with higher levels of capitalization and profitability."

Financial Times of 4 November has an article with a title "Latin America sidesteps the worst of the crisis," which says "the region's banks have weathered the current global financial storms in relative comfort. The domestic funding markets have for the most part continued to function, in spite of the dislocation in industrialized markets. In general, Latin America's banks are proving very resilient. Learning from the past crises, the central banks have curbed bank borrowing in dollars and insisted that the banks are well capitalized."

Changes in the Market and Mindset

The governments and the companies of the region have learnt lessons from the past crises and are exercising more discipline and are better prepared to face external shocks. ECLAC praises the notable improvements in macroeconomic and financial policies; reduced dependency on external capital inflows; major reduction of currency and rollover risks

in the governments' debt portfolios; deepening of local currency debt markets; substantial increase in foreign exchange reserves; flexible exchange rates as part of more robust and credible monetary policy frameworks; and a shift to external current account surpluses or significantly lower deficits.

The Latin American firms have become, on average, substantially more insulated from currency risk. Over the past 10 years, many firms have sharply cut their balance sheet exposure to a sudden devaluation by reducing the share of debt contracted in foreign currency. The average share of foreign-currency-denominated liabilities in Latin America dropped from 35 percent in 1998 to 17 percent in 2007. Also, many firms have built up considerable foreign exchange buffers, by hedging a higher share of their dollar liabilities with export revenues and assets denominated in foreign currency.

The way the Latin American economies have withstood the storm from the north is an indication of the new paradigm of stability and growth of the region. It is farewell to the boom and bust cycle of the past.

Growth

Despite the crisis, region's economic growth is projected to be 4.6 percent in 2008 and around 3.6 percent in 2009. Argentina's GDP will show a growth of 6.5 percent in 2008 and 3.6 percent in 2009. Brazil's growth in 2008 is projected to be 5.2 percent in 2008 and 3.5 percent in 2009 while Mexico will have lower growth of 2.1 percent in 2008 and 1.8 percent in 2009. The growth of the region is sustained by a strong domestic demand.

The crisis, has of course, ended the boom of the last six years when the region was growing around 5.0 percent a year compared to the average of about 3½ percent in the period 1970-2000. In the last six years, per capita growth was over 3.0 percent in a row. Unemployment fell from 11 percent to 7.7 percent. The current account was in surplus. This period saw the best sustained performance since the 1970s, because of the adoption of strong policy frameworks and favorable global economic conditions. The region's current account balance is expected to move to deficit in 2008 and 2009, but it will remain quite low.

Now let us see how the triple curses (inflation, external debt and exchange rate) which had

tormented the Latin American economies in the past, are behaving now.

Inflation

Inflation for the region as a whole is projected to reach 8.5 percent in 2008, the highest rate in five years, resulting from strong domestic demand and rising world food and energy prices. But it is expected to decline to 6.6 percent in 2009, helped by softening international commodity prices, tighter monetary policies, and slowing demand growth. It will, however, remain at double-digit levels in some countries such as Bolivia, Paraguay, Venezuela and Argentina.



It may be noted that Inflation is no longer a curse in the region. It has been decisively tamed and has been kept in single digit in this decade.

External debt

External debt, which was another curse, has also become manageable. IMF has no more clients in the region. Brazil and Argentina paid off their entire debts to IMF in 2006, ahead of due dates. External debt as a proportion of GDP has halved from 42.2 percent in 2002 to 20.2 percent in 2007. The average share of foreign-currency-denominated liabilities in Latin America dropped from 35 percent in 1998 to 17 percent in 2007. In the top six countries of the region, firms have built up considerable foreign exchange buffers, by hedging a higher share of their dollar liabilities with export revenues and assets denominated in foreign currency.

Exchange Rate

The major currencies of the region had been appreciating since 2002 when the dollar started falling. This trend has reversed after the current crisis and the central banks have intervened in the markets

to arrest depreciation. But the currencies and exchange rates are by and large stable and predictable, unlike in the past.

Foreign Trade

Latin American exports are projected to grow by 2.8 percent this year while the imports are expected to increase by 11.8 percent. In 2007 exports had increased to \$752 billion from \$670 billion in 2006. Imports went up to \$677 billion from \$573 billion in 2006. The South American countries had accumulated large trade surpluses. However, the fall in commodity prices and demand this year will reduce the trade surplus. Many governments of the region have started putting some brakes on imports to protect local industries and jobs.

Downside risks

Of course, Latin America cannot escape the inevitable pain arising from the global financial crisis and economic slowdown. They will be affected by the decline in demand and price for their commodity exports and the reduced access to credit. Most analysts expect agricultural commodity prices to peak in 2008 and flatten or decrease slightly in the following years, although on average they will remain higher than during the decade prior to the boom. A prolonged slowdown in the United States will not only threaten the economies of Latin America and Caribbean economies directly through lower import demand and a decline in remittances, but also indirectly through its impact on Asian economies and trade.

Mexico and Central America will face greater impact of the crisis and the recession in the US market since they are more dependent upon the US for their exports and remittances by their expatriates.

Diversification of Latin American exports

One of the reasons why the region has been affected less from the contagion from the west is the decline in the share of USA and EU in Latin American trade. The share of USA in the exports of Latin America and the Caribbean has fallen from 60 percent to 42 percent between 2000 and 2007. Even the Mexican exports to the US have reduced from nearly 90 percent of the total in 2000 to 78 percent in 2007. According to Latin Business Chronicle, Latin America's exports to the US grew by 4.2 percent while their exports to China grew by 49.4 percent. The European Union too is losing

ground as a trading partner for the region. Imports from the European Union as a share of total Latin American and Caribbean imports declined from 20 percent in 1990 to approximately 14 percent in 2006. In the same period exports to the European Union declined from 25 percent to 13 percent. Intra regional exports accounted for 18 percent of the total exports of LAC while the exports to EU were just 13 percent.

The Latin American countries have been consciously diversifying their export markets and reducing their dependence on traditional markets, as seen from the following trade statistics of 2007. For example, 55 percent of Argentina's exports went to Latin America and Asia while USA and European Union together accounted for only 27 percent. Latin America and Asia accounted for 43 percent of Brazil's exports while USA and EU took 39 percent. Chile's exports in 2007 to Asia Pacific were 36 percent while their exports to USA and EU combined were just 37 percent. Colombia exported more to the rest of Latin America (36 percent) than to USA (31 percent).

The reduction in dependence on USA and Europe is happening not only in trade but also in investment. Historically, the US has been the most important source of FDI in Latin America. In the 1990s, Spain came to be a big player acquiring Latin American banks, utilities, telecom companies and manufacturing units. The Spanish were the first movers during the wave of privatizations in the 80s and the 90s. In the present decade, the share of intra-regional FDI in total FDI inflows into Latin America has doubled (from 5.0 percent to 10 percent) due to the emergence of a number of companies of Latin American origin, the so-called 'trans-Latins'.

Asian Attraction

While the shares of USA and Europe are coming down, Asia is increasing its share of Latin American trade. According to ECLAC, the dynamic Asian region, led by China, will help offset some of the decline in export demand in the developed countries. Since 2001, more Latin American and Caribbean imports have originated in the Asia-Pacific region rather than in the European Union, and the share of Asia-Pacific imports is rising steadily. If the current trend continues, by 2010, as much as 30 percent of Latin American and Caribbean imports could come from the Asia-Pacific region.

Nearly 36 percent of Chile's exports go to Asia-Pacific region; the figure for Dominica is 31 percent; for Cuba,

29 percent; Peru, 24 percent; Costa Rica, 24 percent; Brazil, 18 percent; Bahamas, 17 percent; Argentina, 16 percent; Uruguay, 12 percent; and Bolivia, 12 percent.

The Latin Americans do not expect increase in their exports in 2009 to the developed markets because of the recession which is setting in the advanced economies. Their hope is on the emerging markets which are going to grow by 5.0 percent, much of which is going to come from Asia.

The Latin Americans are not only facing a declining share of USA and Europe in their trade and investment but are also disillusioned by the western mindset. Many of the Latin American countries in the region who were subjected to neo-liberal policies of the Washington Consensus are now seeing the hypocrisy of the west which is doing exactly the opposite of what they preached by rescuing the market through government intervention. The Latin Americans are frustrated with the protectionist trend in USA and



Europe even while the latter are clamouring for the opening of the Latin American markets for their exports and investment. More than these, they are disenchanted by the current dominant mood of doom and gloom, fear and paranoia in the west. They contrast this with the cheerful Indians and Chinese who are brimming with optimism and confidence. They are inspired by the Asian story of growth. They are encouraged by the large and growing markets of India and China which offer increasing opportunities in the short and long term for their exports and business. The Chileans and Argentines dream of putting one glass of their wine in the hands of each of the 500 million middle class people in India and China!

All the reports on Latin America by ECLAC, IMF and global consultancies always have a chapter on China and India and highlight the growing importance of these two giants for Latin America. The latest report of ECLAC advises the Latin American and Caribbean

region's authorities:

- To redouble their efforts to identify and capitalize on new opportunities to enhance their countries' potential complementarities with the Asia-Pacific region.
- To take full advantage of Asia's trade and investment dynamic, Latin America and the Caribbean must, as a matter of urgency, reorient and realign its relations with the Asia-Pacific region in order to sustain its commodity exports while producing more value added and more technologically complex manufactures for that market.
- With imminent risks bearing down on the world economy and the emergence of a new geography of the world economy increasingly centered around Asia-Pacific, Latin American and Caribbean authorities should redouble their efforts to identify and capitalize upon the potential complementarities between the region and Asia-Pacific.
- Latin America and the Caribbean should take advantage of its current favourable position to lay the foundations for sustained trade and investment relations by creating bi-regional business alliances, enhancing cooperation in innovation and human capital in order to diversify trade, add greater value and knowledge to exports, and help create more stable conditions for growth.

Opportunity for India

There is a saying in Latin America "A Rioreveuelta, ganancia de pescador" means when the river is turbulent, the fisherman will gain. Simply put, every crisis is an opportunity. And the Indian businessmen should take advantage of the current situation of Latin America which is looking towards Asia more seriously than ever.

While talking about the new China-India phenomenon, the Latin Americans tend to have a bias towards India. Surely they are dazzled, like everyone else, by the spectacular growth of China. But they are able to relate themselves, their problems and their situation more with India, which has shown by its example that growth and transformation is possible in a democratic system despite so many challenges arising from such a vast diversity and political spectrum.

Latin America and the Caribbean is a net exporter of fuels, metals and agricultural products and a major

producer and exporter of commodities on a global scale. In 2006, the region produced 44 percent of the world's soybeans and 13 percent of global maize output. Its share in the production of zinc, aluminium and copper is also sizeable, at 28 percent, 22 percent and 19 percent, respectively, of the world total. India needs to import edible oils, pulses, petroleum and minerals and metals to sustain its new growth trend and to cope with the ever-increasing consumption. Latin America is a region which can satisfy some of the requirements of India. Already India has started importing copper, soy oil, and crude petroleum from Latin America and these will increase in the coming years.

This is a good time for the Indian companies to acquire assets (agricultural land, mines, oil fields, forestry, manufacturing units) and expand their business in the region, since at this time the risk-shy companies from the US and Europe are reducing their exposure and are relatively less active here.

India exported \$5 billion worth of goods to Latin America in 2007. It can be doubled in the next three years, given the large and growing market of 530 million people in the region.

While India's trade with the region was \$11 billion in 2007, the Chinese trade was \$103 billion. The Chinese had increased it from \$12.6 billion in 2000.

Indian IT companies have established software development centres, BPOs and KPOs in the region employing 8000 young Latin Americans, as part of their new business model of providing 12 hours of service from Latin America (same time zone as USA) and 12 hours from India. The Indian companies have also started picking up local business from Latin American companies including a \$150 million contract by TCS from Banco Pichincha of Ecuador.

In the past, Indian companies had a "barrier mindset", considering distance and language as barriers for business with Latin America. Now the Indian IT companies consider these two factors as advantages and make use of them merrily. Distance is not a barrier either for the Chileans who export fruits to India.

The ex-Chilean Ambassador Jorge Haine used to say, the distant Chile exports more (\$2.2 billion) to India than the neighbouring Bangladesh (\$257 million).

Welcome to the new paradigm of business with Latin America! ■

OECD's LatAm Study Calls for More Reforms & Better Public Services



The 2009 edition of the Latin American Economic Outlook, prepared by the Organization of Economic Cooperation and Development (OECD) analyses the progress governments in the region have achieved in the fiscal realm during the last decade. UN's ECLAC Executive Secretary Alicia Bárcena described the publication as “An important step forward in the dialogue and exchange of experiences between OECD countries and the LAC region.” The OECD analysis argues in conclusion that the Latin America and the Caribbean could do much more to exploit the ability of fiscal policy to boost economic growth and combat poverty and inequality. Well-administered fiscal policy can be the basis of a renewed social contract between Latin Americans and their governments. This Outlook highlights areas where reform would be most fruitful on both the revenue collection and the spending side. It urges Latin American governments to design fiscal systems adapted to the specific nature of their economies and to keep a close eye on political economy, for example in debt management. Particular focus is given to the need to deliver better and fairer public goods and services, and how success in this area can contribute to democratic consolidation.

Fiscal Policy & Development: The Link

Fiscal policy is not just an instrument for macroeconomic management, but also a tool which can be wielded by Latin American governments in the pursuit of development. Thoughtful and active use of tax policy, public spending and debt management can boost Latin America's development by promoting growth and reducing poverty and inequality. What is more, the performance of a country's fiscal system provides a snapshot of the social contract that links its government and its citizens. Publicly provided goods and services of reasonable quantity and quality for the

one part, and transparent and progressive tax systems for the other, are signs of a healthy social contract. These two parts go hand in hand: if public goods such as health, education and infrastructure are scarce, low-quality or inequitably provided, the social contract is weakened. The same is true of fragile or regressive tax regimes. This social contract is especially relevant to Latin America today because the region is in the midst of a democratic consolidation. In this context the performance of a country's fiscal system and citizens' perceptions of that performance is closely linked to the legitimacy of democracy itself. Fiscal legitimacy, the belief that the tax and public

spending system is fair, is the key mediator in this. High levels of fiscal legitimacy are found where the tax and transfer system is effective in addressing income inequality; high-quality public services are equitably delivered; obligations and entitlements are governed by fair and transparent rules; and there exists a reasonable level of public support for the government's management of the fiscal system. Fiscal-policy choices do not exist in a vacuum and are always subject to politically determined constraints. Politics matters because fiscal policy is inextricably interwoven with the nature of the welfare state, the shaping of which is a profoundly political process. In short, political economy matters: a consideration of political constraints needs to be added to the technical design of fiscal systems in order to boost prospects for lasting reform in the region.

Contrary to conventional views of fiscal policy as a threat to growth (via the disincentive effect of taxes on work and investment) or as no more than a macroeconomic stabilizer for inflation and unemployment, this Outlook argues that fiscal policy can be a key tool for economic, political and social development in Latin America. Fiscal systems can provide the resources needed to carry out pro-growth investments and structural transformations. Taxes and public spending can directly attack poverty and inequality, twin problems that continue to beset the region.

This potential for good is substantially unrealized in Latin America. While taxes and transfers reduce inequality by 19 Gini points in Europe, the difference is less than two Gini points in Latin America. Social security spending, strongly regressive in the region, is a major culprit in the unfulfilled potential of redistributive fiscal policy. And the quality of basic public goods and services such as health or education neither meets the region's development needs nor provides a spur to citizens' engagement with the state. A change of approach is needed if Latin American governments are fully to exploit the potential of fiscal policy as a development tool.

Fiscal Performance: Recent Trends

Since 1990, Latin America's fiscal performance has been encouraging. Fiscal deficits in the region, for example, have fallen from 11 percent of public revenues in the 1970s and 1980s, to only 8 percent since 2000. Is this change due to good luck or good policies? Evidence for better policies includes

increased expenditures, credible macroeconomic management and greater decentralization. These have been accompanied by creative innovations such as new fiscal responsibility rules, conditional cash transfer schemes and participatory budgeting.

However, fiscal performance is still a long way from closing the gap with OECD benchmarks. Moreover it remains to be seen how resilient positive trends and institutional innovations will be to any change in the good fortune brought to the region by buoyant commodity prices, favourable terms of trade, and cheap and plentiful capital. That test may come soon.

This Outlook assesses that performance gap by comparing and contrasting fiscal performance in Latin American and OECD countries. Both public revenues and public expenditures in Latin America are below the OECD average, though there is substantial variation across both groups of countries. Over the period 1990-2006, total government revenues averaged 23 percent of GDP in Latin America, and 42 percent in OECD countries. Total expenditures over the same period averaged 25 percent of GDP in Latin America and 44 percent in OECD countries. Revenues and expenditures alike have been rising as a share of GDP in Latin America.

Taxation and expenditure also differ substantially in their structure between Latin American and OECD countries. Consider just the revenue side of the ledger. Non-tax revenues are far more important to the public finances in Latin America, averaging fully 8 percent of GDP. Pure tax revenues only come to 16 percent of GDP in the region versus 35 percent in OECD countries. Of these Latin America raises 25 percent from direct taxes, compared with 42 percent in OECD countries. Within this, only 4 percentage points is attributable in Latin America to income taxes on individuals, where the OECD comparator is 27 percentage points.

Contrary to the textbook prescription, Latin American fiscal policy is pro-cyclical: governments generally spend more during booms and less during slumps. Moreover, a range of important fiscal variables including revenues, spending and deficits are more volatile in Latin America than in OECD countries. This Outlook shows, however, that this fiscal volatility has been falling in the region and since 1990 has been closing the gap with the OECD. An index of deficit volatility calculated for this Outlook shows a fall of a third from 1990-94 to 2000-06, with Latin America standing just 6per cent above the level in the OECD in

the latter period. Over the same timescale revenue volatility in Latin America fell by a quarter and expenditure volatility by some 40 percent.

Local governments in Latin America are flexing their fiscal muscles but relative to their counterparts in the OECD remain relatively small and heavily dependent on central government transfers. While the level of local government expenditures was around 41 percent of central government expenditures in OECD countries during the period 1990-2006, the corresponding figure for Latin America was only 23 percent. The ratio for revenues was similar. In terms of transfers, the gap is slowly closing but it remains large: inter-governmental transfers as a share of GDP averaged 9 percent in OECD countries and just 2.7 percent in Latin America.

Despite this positive overall trend in fiscal performance, Latin America still has plenty to do in terms of fiscal reform. Revenue generation should diversify away from its reliance on non-tax sources and indirect taxes. Fiscal volatility, a drag on growth, could fall further. And social transfers do not yet play their proper role. Achievements and innovations in the fiscal realm need to translate into sustained policies and lasting institutional reforms.

The Business of Politics & Capital Markets

Compared with the OECD, revenues and expenditures claim a small share of GDP in Latin American countries. But the differences between them have often

produced OECD-sized deficits. The legacy of those deficits is public debt, the management of which has long posed problems for governments in the region. Latin America still has high levels of debt, leaving countries in the region vulnerable to adverse shocks. But this fact should not obscure the considerable progress made by Latin American countries in managing the composition of that debt, in particular reducing their exposure to currency mismatches where government revenues and debt-service obligations are denominated in different currencies.

A market for public debt denominated in Latin American currencies is not new; what is new is that Latin American governments have been increasingly able to place local currency debt abroad, aided by the strong economic conditions. But challenges remain. For instance, while available maturities in domestic bond markets have increased over recent years, the overall maturity profile of the region's debt is short when compared to other emerging markets as well as developed countries.

A major characteristic of Latin American sovereign-bond markets is that they have been keenly sensitive to political events for example reacting negatively to the uncertainty that is an inherent feature of democratic elections. Not just economic policies but also the economic policy platforms of electoral candidates have a significant influence on the behaviour of Latin American sovereign-bond markets at these times.

First, investors worry that incumbent political parties will expand spending to encourage political support, with costs for post-election economic performance. This is not unreasonable: evidence of such political business cycles has been observed in rich and poor democratic countries alike. Second, capital markets are unsettled by uncertainty about the economic policies that will be pursued following the election.

The different reactions in the capital markets to the two elections won by Brazilian president Luiz Inácio Lula da Silva provide a clear example of the role political parties and candidates play in this regard. Perceived as the populist opposition to a fiscally conservative government in 2002, markets reacted with apprehension to Lula's candidacy as soon as his campaign began to gain momentum and investment bank recommendations moved sharply negative on Brazil. Yet once in power a communication campaign and a commitment to credible policies reassured the markets and confidence returned. When the same



Lula was re-elected in 2006, against an opponent who also espoused credible policies, the presidential elections caused hardly a ripple in the markets.

Revenue Generation & Taxation.

Management of public debt is one dimension of fiscal policy making; taxes are another. As already noted, tax takes a lower share of GDP in Latin America than in OECD countries. It does not follow, however, that tax revenue in Latin America is “too low” or indeed “too high”. Countries in the two groups start from different historic bases and face different constraints and opportunities. This is evident even in the substantial variation between Latin American countries themselves, where tax revenues range from over 30 percent of GDP in Brazil, to little more than 14 percent in El Salvador.

These lower levels of fiscal resources are among the factors that explain the poor redistributive performance of the fiscal system in Latin American economies. Latin Americans themselves, however, are as concerned as OECD nationals about inequality and the welfare state. Expressed preferences for or against redistribution are on average the same in the two groups, though opinion is generally more polarized in Latin America than in the OECD.

The tax-collection gap in Latin America does not have a single cause. Personal income taxes, which provide more than a quarter of tax revenues in OECD countries, are a good example. It is clear that low levels of personal income limit the scope for income taxes. In many countries, the vast majority of working people approximately 90 percent in Brazil, Chile, Colombia and Costa Rica, for example have incomes below the minimum threshold at which personal income taxes must be paid. Also important is the skewed distribution of income in Latin American countries, which means that for a given average income, fewer working people in an economy are in the income brackets where they are liable to pay tax.

Reliable cross-country evidence on the extent of tax evasion is scarce. But simple yet plausible simulations suggest that even eliminating evasion completely would do little to close the tax-collection gap between OECD and Latin American countries. Indeed, bringing informal workers and employers into the tax net might create a net fiscal loss, since many would be eligible for benefits and incentives of various kinds and administrative costs for tax authorities would rise. Nevertheless, measures to limit evasion in

addition to those legal means of avoiding tax can play an important role in increasing fiscal legitimacy.

Socio-Economic Reality; Informal Economy

The informal economy is large in Latin America and its existence is intimately related to the fiscal system. Almost by definition, employers and workers in the informal economy do not pay personal or corporate income taxes (either because their incomes are too low, or because they are not registered with tax authorities), nor do their customers generally pay any relevant sales taxes. Against this, the people left out of the social safety net mean that informality is associated with lower public-sector expenditures.

Whether informality is defined in terms of those who do not contribute to tax revenues, or those who are not covered by social security, it is an important indicator of a weak or broken social contract. Some people in the informal economy are there as the result of a deliberate choice not to engage with the state, based on a personal cost-benefit calculation even if they might not see it that way. Others have been excluded from the formal sector, and for them informal employment is really disguised under-employment stemming from rigidities in labour-market institutions. A comparison with Europe is telling. In Europe informality is largely a matter of tax evasion. In Latin America informality is much more complex, and firms and workers are rarely either entirely formal or informal. There is evidence in the region of a pick-and-mix approach to taxes and benefits, with individuals or enterprises accepting some but not all of the engagements the state offers. A survey in Mexico, for example, found that only half of micro-enterprises questioned were fully informal, while one in Bolivia found firms twice as likely to comply with their municipal obligations as be registered for value-added tax.

Fiscal policy makers in Latin America, in addition to taking into account the scale of the informal sector in their economies, need to respond to the multiple ways the phenomenon expresses itself and its diverse causes.

Policy must also balance the attractions of special regimes for firms and individuals in the informal economy against universal tax and benefits for all; each of these policy packages can create unintended incentives that are counterproductive. Typically, governments (not only in Latin America) craft special tax regimes to formalize particular parts of the

economy. But these regimes can become barriers to expansion by small firms. And where from a quarter to more than half of workers hold informal jobs then piecemeal extensions to tax and spending regimes are likely to be inadequate, particularly as eligibility for the expenditure side (social protection and all the state's benefits) is often linked to formal-sector employment. Universal social protection, meanwhile, could encourage informal employment since it decouples formal work from eligibility. On the other hand it protects vulnerable workers and may improve national productivity by promoting inter-sectoral and inter-regional labour mobility.

Innovative policy experiments in Latin America and beyond show that tax compliance can be facilitated by better aligning the costs of formality for an individual with its benefits, adopting simplified regimes for all tax payers, and offering formal and informal workers social services on an equal footing.

Quality of Public Spending - Case of Education

Taxes and transfers have a powerful potential to redistribute income; but social spending on human development in particular, health and education can play an enormous role in equalizing opportunities for all. With this in mind, this Outlook takes a close look at education spending and performance in Latin America. What emerges is that the main challenge the region faces is to improve the quality of education, as measured by student learning and cognitive abilities. At the same time, quantity must also be improved, as Latin American countries must increase rates of participation and completion beyond universal primary education.

Public expenditure on education in Latin America is substantial and rising. Spending on education as a share of total public expenditure has been growing in Latin America; as a share of GDP education expenditure now stands at around 4 percent, a level similar to that observed in OECD countries. But spending per pupil is still five times lower in Latin America, as the school-age population accounts for between a quarter and a third of the total, compared with less than a fifth in the OECD.

Latin American countries spend proportionally more on primary education than OECD countries, and less on tertiary and secondary. The gap is particularly evident in secondary education, where Latin American countries spend on average 13 percent of GDP per head, while OECD countries spend over 24

percent of GDP per head. Partly as a result of this allocation of spending, gross secondary-school enrolment rates in Latin America average under 77 percent while the OECD average is close to 100 percent.

To assess quality of education-expenditure outcomes, this Outlook focuses on performance (measured by the average and distribution of test scores in the OECD Programme for International Student Assessment [PISA] study) and equity (measured by the degree to which a student's socio-economic background determines his or her test scores). On both counts, Latin America's PISA results give cause for concern.

PISA test scores in Argentina, Brazil, Chile, Colombia, Mexico and Uruguay the six Latin American countries that participated in the study are poor compared with the OECD. The performance gap between Latin American pupils and their OECD peers is equivalent to three years' worth of schooling, while the gap for other emerging countries in the study is only about half as large. The good news is that between the 2003 and 2006 PISA rounds scores for Latin American countries generally improved.

The right policies can help. Economies such as Lithuania and Macao-China spend similar amounts per pupil to Latin America yet do better on both performance and equity. In the OECD, school and educational policies such as the time students spend in regular lessons, better accountability and merit-based admission policies could have a powerful effect on student learning. The PISA study furthermore shows that there is not necessarily a trade-off between performance and equity. Policy makers in Latin American countries can benefit from studies such as ISA, as they grapple with the political economy of educational reform.

Education spending is but one example of how fiscal policy can foster development, not just economic growth, in Latin America. The challenge is to channel public spending towards policies that encourage demonstrated best practice and secure the social support needed to leverage the state's own actions. Certainly there is a need for more expenditure on the key areas of physical and human capital formation, but the real priority for the region is to improve the quality of that expenditure by making it more efficient and better targeted. ■

LAC's Economic Growth Slows Down, But Trade with India Rises

- Exim Bank

Economic growth of the Latin America and Caribbean (LAC) region in 2009 is expected to slowdown due to the global financial meltdown, originating from the United States one of its major markets, says an in-depth study made by the Export Import Bank of India. But LAC's bilateral trade with India, however, is on the rise says the study.

Macroeconomic performance in Latin America and the Caribbean (LAC) was impressive in 2007, despite the financial disruptions in the United States. This was the fourth consecutive year of strong growth. Inflation was under control in nearly all the countries, and fiscal and external balances remained positive for the region as a whole. Against this backdrop of growth with stability, unemployment and poverty have continued to decline. The first Millennium Development Goal for 2015, to reduce extreme poverty by half of its 1990 levels, is within reach for most of the countries.

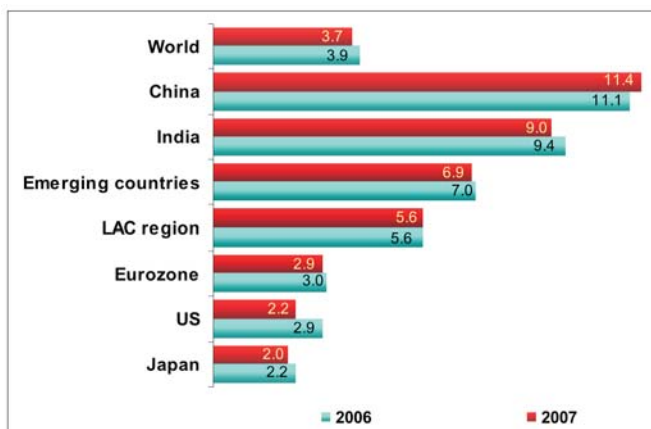
However, 2007 also saw a downturn in a number of important macroeconomic variables. In several countries, the fiscal situation began to deteriorate because trends toward increased public spending considerably outpaced increases in revenues. Current account balances in most countries began to weaken or were already negative. The recent reduction in unemployment rates was very modest, suggesting structural limitations in the labour markets and the rising costs of food and energy in several countries were starting to be reflected in higher inflation.

Under the circumstances, soundness of macroeconomic policies, effectiveness of social policies and responsiveness of political systems will be put to the test in 2008. Not only must growth and stability be preserved, but the growing expectations on the part of people in the region to achieve a better quality of life and more inclusive, equitable societies must be met.

Global Scenario

Despite financial market turbulence in the developed world, the global economy grew 3.7 percent in 2007 - almost the same pace as the previous year. In the United States, growth fell 0.7 percentage points to just above 2.0 percent, and in the Eurozone it slipped from 3.0 percent in 2006 to 2.9 percent in 2007. Nonetheless, growth in emerging economies as a whole remained vigorous at just under 7.0 percent. China and India were in the lead, with estimated growth of 11.4 percent and 9.0 percent, respectively (Figure 1).

Figure 1: Region-wise Gross Domestic Product (GDP) percent change



Source: International Monetary Fund (IMF)

There was a more marked slowdown in the volume of global trade, with growth rates declining from nearly 9.0 percent in 2006 to just 6.6 percent in 2007. However, because the price of oil and other commodities continued their upward trend, the value of global trade mushroomed in 2007. Oil prices, which averaged US\$ 64 a barrel in 2006, spiked to nearly US\$ 100 a barrel toward the end of 2007. Food prices were also on the rise throughout the year. In contrast, metals showed a clearly downward trend beginning in midyear 2007.

Economic Performance in the LAC Region

Latin America and the Caribbean grew 5.6 percent during 2007, the same as the previous year, according to the latest estimates by the United Nations Economic

Commission for Latin America and the Caribbean (ECLAC). Per capita GDP was 18.0 percent higher than in 2003, and average purchasing power in Latin America was up 22.0 percent, reflecting the additional positive impact of the terms of trade and international remittances. In 2007, national savings represented 21.2 percent of GDP at current prices and, as has been the case for some years, was enough to finance regional investment in its entirety. As a percentage of GDP, gross fixed capital formation exceeded 21.0 percent in 2007, the highest level recorded in the 1990-2007 period.

Growth rates for almost all the countries exceeded 3.0 percent in 2007 (Table 1). Among the larger countries, Argentina, Venezuela, Peru and Colombia posted the highest rates, all at or above 7.0 percent; among the smaller economies, Panama, the Dominican Republic, Uruguay and Costa Rica had the highest rates.

With respect to the external sector, the total merchandise trade of the LAC region increased by more than two-fold to US\$ 1,575 billion in 2007 from US\$ 733 billion in 2002. Exports of the region showed more than two-fold increase to US\$ 801.3 billion in 2007 from US\$ 353 billion in 2002, while imports also grew in the same pace during the same period (Figure 2). Positive current account balances and large international reserves in many countries in the region provided a significant buffer against external financial disruptions. In 2007, Latin America and the Caribbean as a whole had a current account deficit equivalent to 2.0 percent of aggregate GDP (Table 1). As a result of the bonanza from their oil and mineral exports, Bolivia, Venezuela, Chile, Paraguay and Ecuador posted the highest surpluses. The countries of Latin America and the Caribbean have been building up international reserves at an increasingly rapid rate. Indeed, in 2006 and 2007 the pace of reserves growth

Table 1: Latin America and the Caribbean Select Macroeconomic Indicators (2007)

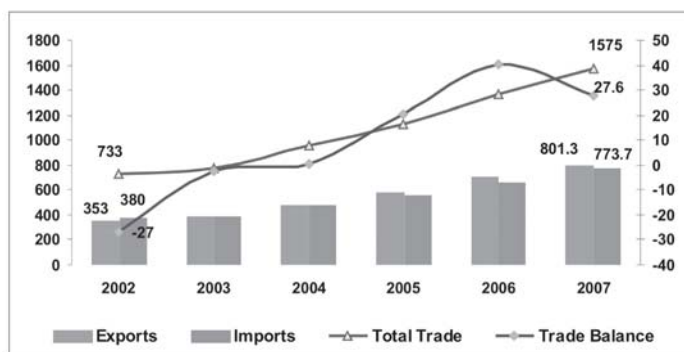
Countries	GDP Growth (Percent)	Inflation (Percent)	Current Account (Percent of GDP)	Public Debt (Percent of GDP)
Argentina	8.6	8.5	2.6	55.3
Bahamas	3.3	2.4	-21.1	4.4
Barbados	4.0	3.9	-4.3	10.6
Belize	3.0	3.5	-3.3	n.a.
Bolivia	3.8	11.9	11.5	37.7
Brazil	5.3	4.2	0.4	30.7
Chile	5.3	7.4	4.9	4.9
Colombia	7.0	5.4	-3.9	39.8
Costa Rica	7.0	10.1	-5.3	28.2
Dominican Republic	7.5	7.2	-4.2	16.7
Ecuador	2.7	2.7	3.4	28.1
El Salvador	4.5	6.2	-4.5	34.6
Guatemala	5.5	9.1	-4.9	21.6
Guyana	4.5	10.4	-15.7	n.a.
Haiti	3.3	8.1	1.6	30.6
Honduras	6.0	9.6	-6.9	19.9
Jamaica	1.5	8.5	-17.0	89.6
Mexico	3.3	3.9	-0.8	22.9
Nicaragua	3.0	12.8	-15.9	42.0
Panama	9.5	5.5	-3.8	54.5
Paraguay	5.5	7.4	3.7	21.0
Peru	8.2	3.5	1.5	27.6
Suriname	5.0	5.6	6.6	14.8
Trinidad and Tobago	5.5	7.3	16.4	13.3
Uruguay	7.5	8.6	-2.6	56.5
Venezuela	8.5	20.7	9.6	14.0
Latin America and the Caribbean (LAC)	5.6	6.1	-2.0	30.0

n.a.: Not available

Source: Economic Commission for Latin America and the Caribbean (ECLAC)

in the countries picked up as a result of currency market intervention motivated by the concern of some central banks (particularly those of Argentina, Brazil and Colombia) about the level of their real exchange rates. Reserves increased by the equivalent of 1.0 percent of GDP in 2004 and 1.6 percent in 2006, and in 2007, it is estimated to reach 3.5 percent of regional GDP. International reserves in the region are over three times higher than the amount of short-term debt. Several countries had very large accumulations of reserves in 2007, particularly before the crisis in the U.S. mortgage market. The crisis slowed this trend but did not reverse it. As of the end of November 2007, Brazil had increased its international reserves by US\$ 91.0 billion and Colombia by more than US\$ 5.0 billion. The total international reserves of the LAC region rose by more than two-fold to reach US\$ 414.0 billion in Nov 2007 from US\$ 201.0 billion in 2003.

**Figure 2: Trend in Foreign Trade
LAC Region (US\$ billion)**



Source: IMF, Direction of Trade Statistics (DOTS)

The public debt/GDP ratio fell again in 2007, to 30.0 percent of GDP, from a simple average of 37.6 percent in 2006. During 2002-2007, the public debt/GDP ratio fell by about 30.0 percent of GDP (from 60.7 percent in 2002 to 31.8 percent in 2007 at the central government level). The factors contributing most to this change were sharp fluctuations in macro variables (exchange rate and interest rate variations and the great volatility of economic activity) and debt restructuring processes. The countries where the public debt/GDP ratio fell most in 2007 (more than 10.0 percent of GDP) were Bolivia, Honduras and Nicaragua. These three countries entered the Heavily Indebted Poor Countries (HIPC) debt initiative and the Multilateral Debt Relief Initiative, enabling them to reduce their public debt considerably.

Prospects and Challenges

As in other parts of the world, Latin American economies are facing an awkward combination of slowing activity, more difficult external conditions, and still-high inflation. After four years of strong output growth, the pace eased in most economies of the region during the first half of 2008, largely because of moderating exports. Countries in the region have also been facing more difficult external conditions in recent months.

Overall, GDP growth is estimated to come down from 5.6 percent in 2007 to 4.5 percent in 2008.

Export-Import Bank of India in the LAC Region

Export-Import Bank of India (Exim Bank) operates a range of lending, services and support programmes to facilitate and promote India's trade and investment relations with the Latin America & Caribbean (LAC) region. Exim Bank has currently 14 operative LOCs amounting US\$ 163.6 mn covering 17 countries in the LAC region. Exim Bank has also signed MOCs with a number of institutions in LAC region, which include: Caribbean Association of Industry & Commerce (CAIC), Trinidad & Tobago; Banco Mercantil, Venezuela; Central American Bank for Economic Integration (CABEI), Honduras; and Corporacion Andina De Fomento, Venezuela. Further, the Bank has supported several Indian project exporters to execute contracts, in the LAC region, including: Praj Industries - Ethanol plant project (Colombia); Aarti Drugs - Pharmaceuticals (Mexico); GPCL - El Nino Emergency Assistance Project (Guyana); Jyoti Structures Ltd. - Power Transmission (Brazil); and Larsen & Toubro Ltd. - Construction (Barbados). Bank has also carried out a number of research studies to examine India's trade and investment potential with the LAC region. Recently, to enhance trade relations with India, a high-level delegation from Peru visited Bank's Head Office in Mumbai on June 07, 2008. The delegation was led by Mr. Juan Carlos Mathews, Executive Director, Export Promotion Agency of Peru-PROMPEX.

Growth of the region is projected to decrease further to 3.3 percent in 2009. Growth in Brazil would come down below trend, and activity would remain sluggish in Mexico as exports and remittances are dampened by the U.S. slowdown. Growth in Central America and the Caribbean is also expected to ease, reflecting the impact of slow U.S. growth on remittances, trade, and tourism, as well as high fuel costs.

Consumer price inflation for the region as a whole rose to 8.0 percent in August 2008, the highest rate in five years, although it is estimated to have moderated to 7.9 percent in the latter part of 2008, and further to 7.3 percent 2009, helped by softening international commodity prices, tighter monetary policies, and slowing demand growth. Still, inflation will remain at double-digit levels in a number of countries in the region, including Bolivia, Paraguay, Venezuela, and several Central American countries.

External positions are generally robust, although the turbulence in the global economy may erode the cushions that have been built up over the past few years. The region's current account balance is estimated to have moved to deficit in 2008 (0.8 percent of GDP), after being in surplus since 2003. In 2009, current account deficit is expected to touch 1.5 percent of GDP. Moreover, reserve levels are high, and flexible exchange rates provide room to maneuver in a number of countries. Overall, public sector balance sheet vulnerabilities have been reduced and credit ratings raised Brazil and Peru both achieved "investment grade" ratings in recent months. However, conditions for U.S. dollar funding have tightened in several countries over the past month, which together with a sustained drop in commodity prices could stretch macroeconomic policy frameworks.

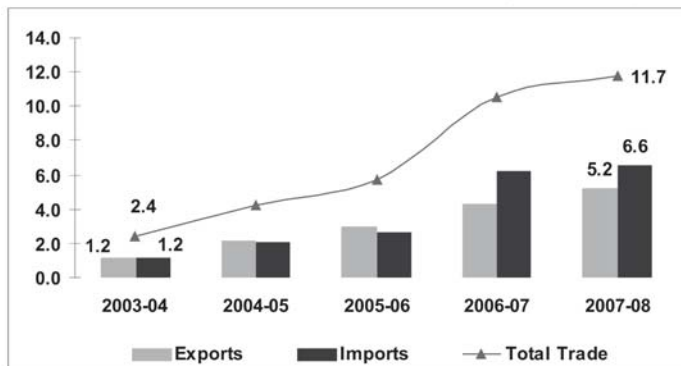
Risks to this outlook are to the downside, largely related to external developments. A deeper downturn in global growth could trigger a sharp drop in commodity prices, while external financing conditions facing Latin America could continue to tighten. Such a scenario would slow growth in the region even more, and although inflation would moderate considerably, external

positions could come under serious stress.

Trends in Indo-LAC Trade Relations

The symbiosis in bilateral commercial relations between India and the LAC region can be assessed from the fact that total trade between India and the region grew more than four-fold from US\$ 2.4 billion in 2003-04 to US\$ 11.7 billion in 2007-08, representing an impressive CAGR of 37.3 percent (Figure 3).

Figure 3: India's Trade with LAC Region (US\$ billion)



Source: Ministry of Commerce and Industry, Government of India

The total merchandise exports of India to LAC region increased from US\$ 1.2 billion in 2003-04 to US\$ 5.2 billion in 2007-08. As a result, the share of LAC region in India's total exports also rose from 3.8 percent in 2003-04 to 7.5 percent in 2007-08. Concurrent rise in imports from LAC region during the comparable period authenticate the increased two way trade relations, wherein India's import from the LAC region rose from US\$ 1.2 billion in 2003-04 to US\$ 6.6 billion in 2007-08, with 2.8 percent share in India's total imports, up from 1.5 percent in share in 2003-04.

As regards major trading partners in LAC region, Brazil remains the leading destination for India's exports during 2007-08, accounting for 43.6 percent of total exports to LAC region. Other major export destinations include Mexico, Colombia, Argentina, Peru, Chile, Venezuela, Honduras and Guatemala. In terms of India's imports from LAC region, Chile dominates with a share of 28.1 percent of India's total imports from LAC region during 2007-08. Other major import sources include Mexico, Brazil, Argentina, Venezuela, Panama and Ecuador. ■

India's Low-Cost Engg. Consultancy Services Gain in Global Market

- EXIM Bank Study

In the field of engineering consultancy services, India has definite advantage because of its capability to take on large design jobs, says a study by the Export Import Bank of India. It says that many Indian companies have made a mark in global engineering consultancy services. India's thriving engineering consultancy industry derives its strength from the large pool of qualified professionals with productivity levels matching global standards at a much lower costs, the study says. And this talent pool is constantly refurbished by innumerable technical educational institutions spread across the country, says the EXIM study.

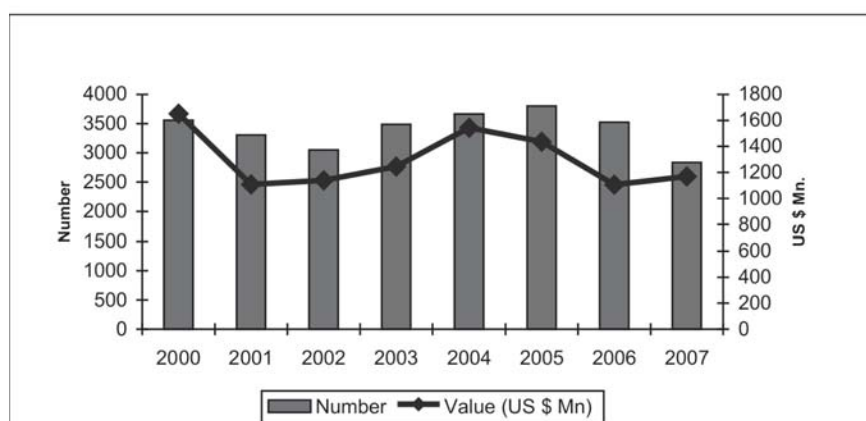
Engineering Consultancy Services is one of the many consultancy domains that have seen its importance growing with the thrust on infrastructure services, especially in developing countries such as India. The engineering and technical consultancy services include the entire range of services that are popularly classified under pre-project, project execution and post-project, broadly involving activities such as project identification/evaluation; environmental impact assessment, identification and development/sourcing of technologies; preparation of feasibility reports, market studies; designing of projects, equipment procurement and erection; engineering design services, project management services, architectural/construction engineering services; and project commissioning, operations and maintenance. The stream of activities would include services for upgrading of capacity, operational efficiency, quality and productivity. Technology is the most crucial component of engineering consultancy services; in some sectors, it may be equipment technologies, and in others it may be process technologies.

Global Engineering Consultancy Scenario

According to a NASSCOM study spending on engineering consultancy services across the world is estimated to be US \$750 billion in 2004. Another study has estimated that architectural services demand in the world in the year 2006 was around US \$112 billion, and the demand for other engineering services was estimated to be US \$600 billion. Asia is the major market for both architectural services (a share of around 32 percent in world demand) and engineering services (a share of around 35 percent in world demand), followed by Europe for architectural services (a share of 29 percent), and North America for engineering services (a share of 26 percent).

Multilateral Funding Agencies (MFAs) such as World Bank, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development support the infrastructure creation and development in the regional member countries, which provide opportunities for trade in products and services, amongst member countries, including engineering consultancy services. MFAs, thus, play a major role in boosting cross border trade in engineering consultancy services, through their lending programmes.

Trends in Number and Value of Consultancy Contracts Awarded by World Bank



Source: World Bank

Export Of Engineering Consultancy Services From India

Engineering consultancy exports signify technological advancement of India, and indicate growing sophistication of Indian technical consultancy capabilities, architectural and civil engineering expertise, and integrated project

According to the Reserve Bank of India statistics on balance of payments, India has exported engineering consultancy services to the tune of Rs. 3,287 crore in 2007-08. In addition, Indian companies exported construction services worth Rs. 780 crore in the same year. India is also an importer of engineering consultancy and construction services. In the year 2007-08, India imported engineering consultancy services to the tune of Rs. 3,235 crore, and an additional Rs. 693 crore on account of import of construction

services. Thus, India achieved a net surplus of Rs. 87 crores under the construction services, while the architectural, engineering and other technical services registered a net surplus of Rs. 52 crore in 2007-08.

Trends in India's Export and Import of Engineering Consultancy Services

Items	Receipts			Payments			Net Surplus		
	2007-08 P	2006-07 PR	2005-06 R	2007-08 P	2006-07 PR	2005-06 R	2007-08 P	2006-07 PR	2005-06 R
Construction	780	332	242	693	737	724	87	-405	-482
Architectural, Engineering and other technical Services	3287	6134	3193	3235	3673	1414	52	2461	1779

Note: P-Preliminary; PR-Partially Revised; R-Revised

Source: Balance of Payments Statistics of India, Reserve Bank of India.

execution capabilities, giving greater visibility in overseas markets. It may be mentioned that multilateral funded projects involving international competitive bidding procedures formed a part of export contracts secured by the Indian engineering consultancy firms. Implementation of most of the multilateral funded construction projects requires the use of advanced technology and technical know-how. Indian engineering consultancy companies have successfully competed with the world's best-known consultancy firms and successfully implemented the turnkey projects and consultancy activities in various countries.

India's Future Prospects

Over the years, India has been developing engineering capabilities, especially in the fields of design, R&D and technical consultancy to the levels that are comparable to the world standards. The capabilities of Indian personnel have grown with the experiences gained in setting up projects, in a developing country context, in the core segments such as power, irrigation, heavy engineering, machine tools, textiles; and in the process segments, such as fertilizers, oil drilling, petroleum refining, petrochemicals, chemical and metallurgical industries.

MNCs like Alstom and ABB are well established for

past several decades in India and have earned the reputation in implementing engineering projects. These firms are leveraging the capabilities of Indian companies as clients, service providers, as also partners. To cite an example, Alstom has tied up with NTPC to set up a power services company, and with BHEL for production of super critical boilers. Another interesting feature is that such global engineering services majors have established their R&D operations (Alstom teamed up with Infosys to set up R&D center) or design centers (Bechtel design center in New Delhi) in India to cater to their world requirements. Another example that could be mentioned is the Engineering Services Master Agreement between Jacobs India and DuPont Knowledge Centre, for execution of engineering projects across the world.

Traditionally, MNCs have adopted the strategy of converting their Indian arms as Indian entities. Firms like Mott MacDonalds, Aker Solutions fall under this category. Such firms have also placed India as center of attraction. For example, Aker Solutions has designated India as its global procurement hub. Such companies also value establishing relationship with



Indian companies. For example, Aker Solutions has tied up with Indian company, Praj Industries, to establish BioEnergy, a joint venture, to tap the bio-fuel opportunities in Europe. Conventionally, India's engineering capabilities have mainly been developed under the purview of public sector enterprises, with the establishment of Metallurgical and Engineering Consultants of India, Engineers India Ltd, and Projects and Equipment Corporation of India, mainly with the objective of building industrial infrastructure in India. TCE Consulting Engineers was established by the Tata Group mainly to cater to the Group's engineering requirements. Further, Government of India has also established infrastructure specific consultancy organizations such as Rail India Technical and Economic Services, and Indian Railway Construction Corporation (now IRCON International Ltd), Telecommunications Consultants India Ltd., and Water and Power Consultants India Ltd. Later, many private sector organizations entered into the engineering consultancy and services domain. Over the years, the experiences earned by the Indian companies enabled them to offer their services to international clients and helped them in establishing international reputation. Most of the domestic firms like MECON, EIL and TCE have established strategic linkages with foreign firms, as also with multilateral institutions like World Bank, Asian Development Bank, and UNIDO.

Development of consultancy capabilities and consultancy business are directly related to the growth of industrial and economic development of a country. Even during a gloomy global economy, Indian economy is expected to continue its growth momentum at an average of around 7.0 percent during the financial year 2008-09 with renewed impetus towards infrastructure growth. India's advantage in consultancy services originates in its capability to take on large design jobs. Since, many indigenous companies have already proved their potential in offering engineering consultancy services internationally, India possesses the attributes for a thriving engineering consultancy industry with large number of educational institutions churning out technology professionals with productivity levels matching with global standards, at a much lower costs. ■

LAC Project Investment Picks Up Despite Global Economic Meltdown

Despite the current global economic meltdown, the outlook for the Infrastructure sector in Latin America is bright. This is because of the interest shown by institutional lenders, governments and the private sector in investing in infrastructure.

Analysts say that the recent announcement made by the World Bank that it will boost its financial support to developing countries reeling from the global financial crisis with an extra US\$ 100 billion over the next three years should mean Latin America can look forward to continued funding of its infrastructure expansion plans.

They say the new commitments could almost triple the World Bank's lending to more than US\$ 35 billion dollars in the 2008 to 2009 fiscal year, up from US\$ 13.5 billion in the previous year.

Making the announcement, World Bank president Robert Zoellick urged donors to fulfil pledges for development aid, adding that countries can also direct funding into one of the International Finance Corporation (IFC)'s credit facilities.

The IFC plans to invest US\$ 1 billion over three years in the Bank recapitalisation fund, with another US\$ 2 billion expected to come from investors. The infrastructure facility will get at least US\$ 300 million from the Bank, with another US\$ 1.5 to US\$ 10 billion from outside sources.

While it will take some time for the World Bank's initiative to fructify, recent loans by the Inter-American Development Bank (IDB) include US\$ 400 million for the Panama Canal expansion, the largest infrastructure project currently underway in Latin America. In 2006 the IDB lent US\$ 1.8 billion to 21 infrastructure projects, including 16 public sector projects (US\$ 1.4 billion) and five private sector projects (US\$ 347 million).



Loans made by the IDB so far in 2008 include US\$ 200 million to expand potable water and sanitation services in Buenos Aires, Argentina. The project, part of a wider expansion program, is the first of a US\$ 720 million conditional credit line for investment projects (CCLIP) approved by the IDB. CCLIP is used to speed up the process of arranging and approving IDB loans. It is also designed to reduce loan-processing costs for both the Bank and the borrower.

In October the IDB lent US\$ 100 million to Uruguay to finance rehabilitation work and long-term maintenance of roads under the Corporación Vial del Uruguay concession. Like many IDB loans it is designed to improve the competitiveness of the recipient-country's economy. In Uruguay the road system is used for nearly all passenger and 90 percent of freight transportation.

Another US\$ 80 million will be used to streamline and improve the efficiency of mass public transportation in Montevideo, home of half of Uruguay's population.

Donor countries are also providing plenty of funding. During October's 18th Ibero-American Summit in San Salvador, El Salvador, the Spanish government and the IDB signed an agreement to cooperate in the execution of the Fund for Cooperation for Water and Sanitation, a Spanish initiative could provide up to US\$ 1.5 billion in grants to countries in Latin America and the Caribbean over the next four years.

Spain will provide € 300 million (US\$ 378 million) in 2008 as its initial contribution to the new fund. The grants will be available to finance projects in water supply, sewerage, wastewater treatment, urban storm drainage, water resource management, adaption to climate change, efficiency and operations management.

The IDB also agreed on a US\$ 100 million loan to Brazil to support expansion of the Florianópolis-Osorio Highway. According to the IDB, economic growth and the transport of goods and people in Brazil is being hampered by the poor state of many of its roads, which become impassable in the rainy season.

Part of the Mercosur corridor, the highway is a major transportation route between Argentina, Brazil, Paraguay and Uruguay. The loan forms part of the final stage in a lengthy process to develop the Mercosur highway corridor. Extending for almost 1,600 km in Brazil, it will link the states of Minas Gerais, Rio de

Janeiro, São Paulo, Paraná, Santa Catarina and Rio Grande do Sul with a four-lane limited access highway.

Funding for Roads

But road projects do not have to be on the scale of the Florianópolis-Osorio Highway to have an economic impact. In Peru, ProInversión, the state agency for the promotion of private investment, is set to invest US\$ 33 million on rehabilitation and maintenance over a 15-year period on the Ovalo-Chancay-Huaral-Acos



stretch of the Costa Sierra highway. The road's poor condition increases transport costs and limits regional development, where there is potential for agricultural and tourism activities.

Peru is also expected to invest a further US\$ 770 million in road, airport and port infrastructure, according to Juan Carlos Zevallos, president of Peru's transport regulator Ositran. About US\$ 202 million will be spent on five highway projects, while US\$ 157 million will see the modernisation and expansion of regional airports. A further US\$ 408 million is earmarked for port infrastructure.

Colombia

Colombia is also investing in its roads. It will spend



US\$ 58 million constructing a highway from Tunja city, in Boyacá department, to Puerto Boyacá on the Magdalena River. The project will reduce travel time between the two by three hours and, perhaps more importantly, will increase travel on the trade corridor to the Atlantic coast. Of the 280-km road, only 56 km are currently paved.

Rural roads in Colombia will also receive a boost as the national road authority - Invías - expects to invest around US\$ 67.6 million to improve road conditions in the country's municipalities this year. This rural investment program aims to improve regional connectivity and increase local competitiveness.

Argentina



Argentina is also investing heavily in its infrastructure. It plans a public works budget of about US\$ 6.5 billion in 2009. Public works minister José Francisco López said work will be carried out where it is "most needed" in an effort to tackle congestion areas and bottlenecks.

There are 450 road projects currently underway as part of the 2008 US\$ 2 billion budget, comprising 30000 km of national roads and 20000 km of toll roads.

Brazil



By far the largest economy in Latin America Brazil's government has long realised infrastructure investment is the route to economic growth. Under its Growth Acceleration Plan (PAC) the country will invest at least US\$ 182 billion on infrastructure.

Brazilian president Luiz Inácio Lula da Silva said recently that the PAC will not be affected by the current global financial crisis. Reiterating Lula's declaration of faith in PAC was the recent announcement by Finance Minister Guido Mantega that US\$ 2.6 billion will be injected into the agricultural and construction sectors to combat the "negative impacts of the ongoing global financial crisis."

The agricultural sector will receive US\$ 1.2 billion, the construction sector US\$ 1.4 billion.

Paulo Godoy, president of Brazil's national infrastructure and basic industries association Abdib,

has called on President Lula to form a private equity fund (FIP) to support private sector infrastructure projects.

"The fund would be used to finance short to medium-term initiatives of 12 to 18 months, as opposed to the longer term projects which are financed by financial institutions such as national development bank BNDES. President Lula will discuss the initiative with the treasury department before making a decision," said an Abdib spokesman.

Private investment

While the government is keen to encourage the private sector to inject money into its infrastructure expansion plans, many companies, such as Brazilian mining company Vale, are already doing so. Last month it announced plans to spend US\$ 3 billion adding 546 km to the Estrada de Ferro Carajás railroad, alongside construction of an additional 104 km of railroads, bridges, viaducts, tunnels and loading systems, as well as the purchase of wagons and locomotives.

Vale also has a US\$ 163 million expansion plan for Ponta da Madeira port, in Maranhão state. This investment could be helped by a recently signed Presidential decree designed to increase private investment in the country's infrastructure that changes the regulations for private companies that build and operate public ports under concessions.

The government expects the new regulations will



attract investors to expand the country's port network. Bid winners will have the right to construct and manage the ports, as well as transport third-party cargo.

Pedro Brito, head of its special ports department (SEP), said the government expects to attract investments of US\$ 9.05 billion in the first five years. The concessions will be valid for 25 years and can be extended for another 25.

The decree eliminates the need for private port operators to handle mainly their own cargo. Now, any type of investor can be a port concessionaire. The private sector can still build terminals to handle its own cargo, but can also offer services to third parties.

The two first new ports to be offered in 2009 are expected to be the freshwater port of Manaus in the northern state of Amazonas and the seaport of Ilhéus in the northeastern state of Bahia.

With World Bank funding for infrastructure seemingly secure for the foreseeable future, and the willingness of development banks like the IDB to provide money where needed, Latin America should continue to see its infrastructure networks grow. Especially if the private sector can be persuaded to take part in the region's ambitious plans through initiatives such as President Lula's port operation deregulation. ■



Paraguay Taken as Full Member, Given \$500m Civic Amenities Loan

In a solemn ceremony held in Salvador de Bahia, Brazil, during the Mercosur Summit, CAF President and CEO Enrique García and Paraguayan Finance Minister Dionisio Borda signed an agreement for the country's full membership of the multilateral organization.

García said the agreement with Paraguay reflected consolidation of CAF's Latin American dimension, noting that all Mercosur countries are now full members of the Corporation. "With this agreement Paraguay will be able to deepen its presence in CAF, as well as accessing a substantial number of loans for project finance in the public and private sectors in favour of its development and regional integration," the CEO added.

Paraguay now becomes a "Series A" shareholder and formalizes its subscription of US\$189 million to CAF ordinary capital stock. Added to its existing equity holding of US\$7.5 million, this new contribution raises its subscribed capital to US\$196.5 million. The South American country also agreed to subscribe US\$36 million to the institution's guarantee capital.

Since its membership as "Series C" shareholder in 1997, Paraguay has maintained close relations with the Corporation. As of November 30, 2008, a total amount of US\$94 million had been approved in its favor for integration projects, foreign trade operations, and working capital for commercial banks and microfinance institutions. At this date, the country has a portfolio of US\$40.7 million.

Apart from its credit operations and project finance, CAF operates an integrated support program for countries with non-reimbursable funds. For Paraguay, in a timely response to the emergency



situation affecting indigenous communities, García approved a US\$500,000 donation in early December to finance the Basic Response in Indigenous Settlements Program implemented by the Paraguayan government.

This CAF contribution is in response to the emergency situation affecting indigenous communities in Paraguay.

"I am certain that this cooperation will contribute to offering humanitarian aid, as well as responding to the emergency situation in indigenous communities, through execution of activities related to food aid, provision of water, basic health care, child protection, and investment in basic infrastructure, among others," García wrote in a letter to Paraguayan President Fernando Lugo Méndez.

García reaffirmed in the letter "CAF's irrevocable commitment to supporting Paraguay in promoting sustainable development, regional integration and building a new agenda for the welfare of all its people."

CAF granted a US\$50-million loan to the Programme for Potable Water and Sanitation in Urban and Rural Areas, and US\$40 million to the National Environmental Management and Quality Project. ■

Venezuelan Water & Sanitation Project Gets \$40 m Loan

The Andean Development Corporation (CAF) and Venezuela have signed two loan agreements for the Program for Potable Water and Sanitation in Urban and Rural Areas; and the National Environmental Management and Quality Project.

CAF President and CEO Enrique García said, "CAF is fulfilling an important commitment to social development and the environment by generating specific strategies and supporting programs and initiatives through development of financing schemes which increase investment in these sectors in the countries of the region."

"In addition to the challenges in the area of infrastructure and availability of funds, the objective of guaranteeing universal access to adequate and efficient services fundamentally requires programs and projects with a high human, social and environmental impact," he added.

The objective of the Program for Potable Water and Sanitation in Urban and Rural Areas, which received US\$50 million, is to guarantee the availability,



quality, continuity and sustainability of services in urban, peri-urban and rural areas of the country. The CAF loan is equivalent of 70 percent of the total cost of US\$72.3 million, while the remaining 30 percent will come from local matching contributions.

The loan granted to the National Environmental Management and Quality Project, which totals US\$40 million, is destined to improve the quality of life of the population and improve environmental conditions in the urban and rural areas of influence of each component. The amount granted by CAF is 72 percent of the total cost (US\$55.13 million); the remaining 20 percent will come from local contributions, with investment costs covered by the Environment Ministry.

This project aims to improve public health in urban areas by reducing exposure to pollution and disease vectors related to solid waste; enhancing the institutional capacity of the Environment Ministry; fostering conservation of biodiversity and reducing degradation of natural resources by strengthening wildlife refuges and national and recreational parks; and improving environmental management policies by developing instruments such as the national forest inventory and support for a national toxic waste strategy. ■

Initiative to Reduce Global Warming & Clean Energy Use

The Andean Development Corporation (CAF) has initiated a programme for reducing the problem of Global Warming and promoting the use of alternative clean energy in Latin America by developing and financing innovative projects.

Called Latin American Carbon and Alternative Clean Energy Program PLAC+e, its efforts have been aimed at:

- Promoting and actively participating in developing the emission reduction market for greenhouse gases (GHGs), with participation of public and private sectors;
- Helping countries, productive sectors and

projects to find buyers and generally strengthening demand for reduced GHG emissions in Latin America and the Caribbean;

- Providing technical, intermediation and financial support for projects with potential to reduce GHG emissions;
- Strengthening national institutions and mechanisms to stimulate and build the GHG market and;

Supporting the countries of the region with specialized lines of credit to be used to identify and develop alternative clean and efficient energy projects. ■

Pact to Boost European Investment in LAC Region

CAF President and CEO Enrique García and European Investment Bank (EIB) Vice President Carlos da Silva Costa have signed a Memorandum of Understanding (MoU) to create joint opportunities in support of economic, financial and trade development, with the aim of promoting European investments in CAF shareholder countries and exchanging information between the two institutions. The ceremony took place during a visit by García to Luxembourg.

With the signing of the MoU, both CAF and EIB confirm their decision to strengthen their strategic alliance by expanding areas of cooperation after beginning their business relationship with the signing of two agreements for 80 million euros for financing existing projects in the region, involving European interests.

Garcia said, "This agreement reflects CAF's interest in developing strategic alliances which strengthen the capacities and opportunities of the two

institutions in favor of the Corporation's 17 shareholder countries, at the same time playing an important catalytic role by contributing funds, products and experience from other regions, in this particular case from Europe."

The Corporation and EIB have joined forces in favor of Latin America on several occasions. Recently a US\$2.3-billion loan agreement was signed to finance the Panama Canal Expansion Program; of this amount CAF contributed US\$300 million and BEI US\$500 million.

EIB was created by the Treaty of Rome in 1958 as the long-term lending institution of the European Union. Its main functions include granting finance to the public and private sectors for projects of European interest. The Bank has activities in the European Union (EU) and in 140 countries around the world with which the EU maintains cooperation agreements. ■

M.P. Carves out a Global Cultural Niche in Tribal Art & Culture

India's central State of Madhya Pradesh is creating a niche for itself as a global centre for promoting tribal art and culture. Vanya, a State Government department looking after tribal welfare has succeeded in hosting an International Film Festival of Tribal Art and Culture (IFFTAC) 2008 last February and is now all set to hold the second edition of the event in the bustling commercial city of Indore from 6 to 9 February, 2009.

The inaugural three-day IFFTAC 2008 was an overwhelming success, with films from across 40 countries participating in the festival, besides showcasing tribal culture through an impressive exhibition and seminars. According to O.P. Rawat, Principal Secretary in the State Government's Tribal Welfare Department, the idea of IFFTAC has received instant global response because tribal culture is spread across the world, with the host India, especially Madhya Pradesh, having its own distinct identity in this arena. The IFFTAC organizers believe Madhya Pradesh rightfully qualifies for hosting a festival on a global scale as tribals constitute a fifth of the State's total 60 million population and mostly live in their natural habitat of forests, spread across a third of its total area.

This Indian cultural identity is derived from the essence of various forms of folk life, lyrics, songs and dances. Tribal society, without any ambiguity, has been the custodian of culture, tradition and natural resources. It has thus become imperative for the civilized world to conserve its tribal culture, while achieving an integral connection with it.

Against this background the IFFTAC 2008 was conceptualized to highlight the essence of tribal culture and way of life and help remove the misconceptions about these vibrant people. In this era of Global Village, the necessity of putting forward



these thoughts became a necessity. Madhya Pradesh Chief Minister Shivraj Singh Chouhan, young and dynamic in outlook, personally took up the matter with his Cabinet colleague and Forest and Tribal Welfare Minister Kunwar Vijay Shah for directing Vanya to conceptualize the IFFTAC 2008. Vanya in association with Mumbai's Indian Infotainment Media Corporation, a professional organization committed to social causes, organized the festival, the first of its kind in the world in Indore from 1 to 3 February, 2008. The IFFTAC 2008 took off to a glittering start with popular Bollywood star and politician Shatrughan Sinha, along with actor Randhir Kapoor and several other film and television personalities attending the inaugural function. Among the distinguished foreign guests were Peru's acting Ambassador Carlos A. Yrigoyen, and Shewangizaw Endale, a representative from Ethiopia.

Speaking on the occasion, Sinha said, "The effort to bring the tribal people into the mainstream and develop their tribal art, culture and civilization is not only appreciative but also exemplary. All should learn from this."

On his part, Kapoor congratulated the Madhya Pradesh Government and the organizers of this unique event. He said, "This is a special occasion, which not only the country, but the whole world will witness."

The festival received as many as 250 film entries from 40 countries. Of these, 69 films were selected for competition and for screening. Apart from these, non-competitive documentary and short films and feature films on tribal issues were also screened during the festival.

The countries participating in the festival included Australia, France, Germany, Hungary, India, Iran, Ireland, Israel, Italy, Japan, New Zealand, Pakistan, Peru, Russia, Scotland, Singapore, South Africa, Sri Lanka, Switzerland, Sweden, United Kingdom and the US. Ethiopia, Ecuador, Peru and Botswana were



country-partners of the festival.

The award for the best International Film went to to Haken Berthas of Sweden for her film "Thin Ice" an inspiring interpretation of women's empowerment in a remote area of Ladakh.

Director and Producer Vijay Pratap won the award for the Best National Film for her film 'Tribal Fertility Rites (Itikela Panduga). She won the award for its well researched documentation of ritualistic practices of tribes in the Eastern Ghats of Andhra Pradesh.

Joseb (Soso) of Georgia was awarded for the Best film by a Tribal Film Maker for his truthful & convincing portrayal of tribal culture & ethos in his film "Svani".

Director Ravi Williams won the award for the best film by a Film Maker from Madhya Pradesh for his film "Oh Lohgundi Raja Ho" depicting the honest and sincere treatment of the problems of Agadiya tribes.

Director M Yashwanth Reddy and Producer Ch. Shriniwas Reddy won the award for Best Film by a student film maker for the film "Please Don't Disturb Us" for its sensitive, realistic documentation of the lives of the Khond tribes of Andhra Pradesh.

Director Lesile Mackenzine & Tara Douglas won the Jury award for the best Animation Film "The Tallest Story Competition" for its elegant craftsmanship and handling of tribal stories from different parts of India. ■



Después de seis años de crecimiento económico y estabilidad...

América Latina y el Caribe bien preparados para hacer frente a la crisis financiera global

- Informe ECLAC, ONU

Después de seis años de crecimiento consecutivo en la región, el ciclo de bonanza económica parece haber alcanzado su fin en 2008 para América Latina y el Caribe como consecuencia de la crisis financiera global actual, pero la región se prepara hoy mejor que en las ocasiones anteriores para manejar una calamidad de tal magnitud, según dice un informe de agencia de Naciones Unidas. La Comisión Económica para América latina y el Caribe (ECLAC) ha proyectado un crecimiento de 1.9 por ciento en la región en 2009, escalándola hacia abajo a partir del 4.6 por ciento del año pasado. ECLAC en su informe - Descripción Preliminar de las Economías de América Latina y el Caribe 2008 - presentado recientemente por el secretario ejecutivo Alicia Bárcena proyectó un índice de desempleo más alto de 7.8-8.1 por ciento en 2009 contra el 7.5 por ciento en 2008. El informe de ECLAC dijo que entre 2003 y 2008, los indicadores de trabajo del mercado también mejoraron y la pobreza disminuyó. En un contexto externo favorable, casi todos los países en la región dieron prioridad a alcanzar el equilibrio macroeconómico, con excesos en cuentas externas y fiscales. Hoy, la región se prepara mejor que en las ocasiones anteriores para manejar una crisis, pero de ningún modo es inmune. Los siguientes son los extractos del informe.



La situación de América Latina y de las economías del Caribe en 2008 es igual que "volar como un planeador," apoyado por el impulso de años pasados. Los motores del crecimiento se pararon y no se sabe cuándo se girarán de nuevo, o cómo será el aterrizaje. Se espera que el empleo informal se aumente y la inflación disminuya perceptiblemente, a partir del 8.5 por ciento este año al aproximadamente 6.0 por ciento en 2009.

Impacto de la crisis

La crisis internacional está afectando a América Latina y el Caribe a través de dos canales principales: los verdaderos y financieros. En la economía verdadera, las exportaciones están disminuyendo ya, especialmente en los países ligados más a las economías desarrolladas en la recesión, tal como México y algunas naciones centroamericanas. La reducción en el precio de productos básicos, particularmente combustible, los metales, y alimento,

afectará a los términos del comercio en la región, que, aunque continuaron mejorando durante 2008, se espera que empeoren en 2009.

Otro efecto es la reducción de remesas de los trabajadores emigrantes, que proporcionan renta significativa a algunas economías del Caribe y centroamericanas. Por otra parte, la demanda decreciente para los servicios del turismo obstaculizará aún más los niveles de renta de estos países. Al final, se espera que los flujos extranjeros de la inversión directa también disminuyan.

El financiamiento externo se hace costoso

En cuanto al canal financiero, el financiamiento externo, tanto para las empresas privadas así como para deudas soberanas, ha llegado a ser más costoso, y la disponibilidad del crédito se ha restringido seriamente. Ambos efectos han llevado ya a una depreciación fuerte de la moneda local en varios países, que, aunque sea positivo en términos de

competitividad, también trastorna los balances de los endeudados en dólares y refrena que la inflación baje más.

La crisis puede tener un impacto negativo en la distribución de ingresos, dado que la subida del desempleo y del trabajo informal afectará especialmente a los hogares de ingreso bajo y los encabezados por mujeres.

Soluciones para estimular las economías

La profundidad y la longitud de la crisis son todavía inciertas y dependen de la eficacia de las medidas tomadas para estimular demanda y la normalización de los mercados de crédito en economías desarrolladas.

Para abordar problemas globales, hacen falta soluciones coordinadas. La demanda estimulante debe no sólo venir de países desarrollados, sino también de los que están en vías de desarrollo, y esto requiere mayor integración y coordinación de políticas macroeconómicas en la región. Para muchos países, es vital contar con recursos adecuados proporcionados por las agencias internacionales para financiar la puesta en práctica de políticas contracíclicas.

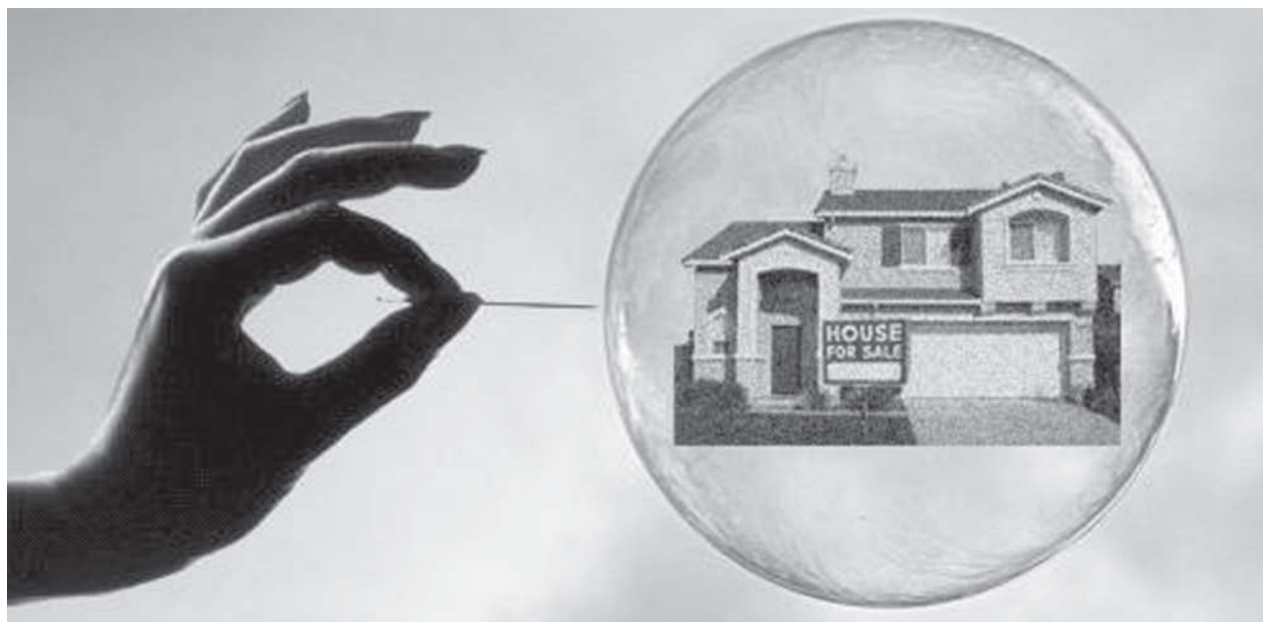
Consolidación de comercio intrarregional

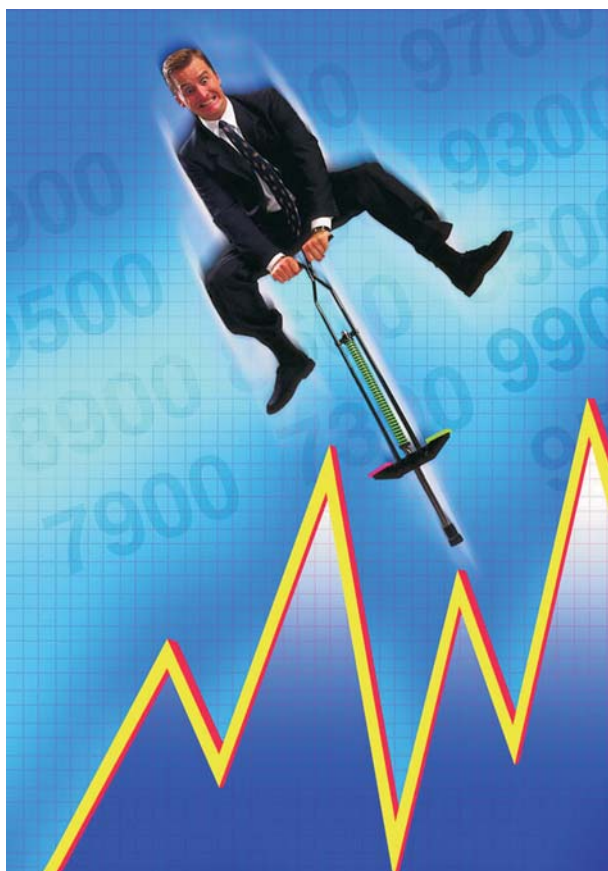
Además, el comercio intrarregional e integración - entendidos en su sentido más amplio debe ser fomentado. ECLAC cree que es importante avanzar hacia el establecimiento de una nueva arquitectura financiera internacional y un papel más activo de los

cuerpos financieros regionales, que deben proporcionar la liquidez necesaria para financiar estos esfuerzos.

Con el crecimiento económico anual para América Latina y el Caribe que es proyectado en el 4.6 por ciento, 2008 marcará el sexto año consecutivo de crecimiento y el final de un período que tiene muy pocos precedentes en la historia económica de la región. Entre 2003 y 2008, el crecimiento regional del PIB hizo un promedio de casi 5.0 por año, con el PIB per cápita aumentando a sobre 3.0 por año. Este crecimiento fue acompañado por mejoras en indicadores del mercado de trabajo y una reducción en pobreza en la región. Una de las características más excepcionales de este período ha sido el hecho que, en la mayor parte de los países, los responsables políticos han dado prioridad en mantener equilibrios macroeconómicos, lo cual ha ayudado en generar excesos en sus cuentas externas así como fiscales. El ambiente económico externo altamente favorable de los años últimos ha sido otro factor que ha contribuido.

Estos resultados no serán repetidos en 2009, sin embargo. El crecimiento en 2009 se proyecta ser de un 1.9 por ciento. Esta estimación se hace a base de un panorama en el cual la economía global en general y la economía regional, particularmente, comiencen gradualmente a hacer una recuperación durante la segunda mitad de año. Las proyecciones del crecimiento para el próximo año son mucho más bajas que para el período que acaba de terminar. Debido a esta situación, los gobiernos de la región deben hacer





todo lo posible para desplegar políticas contracíclicas a fin de evitar una declinación económica incluso más aguda. Mientras que el sector informal de la economía se amplía, el comportamiento de los precios internacionales de alimento y de combustible, por una parte, indica que la inflación se desplomará de 8.5 por ciento en 2008 al alrededor de 6.0 por ciento en 2009.

Causas de la crisis

En apenas más de un año, lo que había comenzado



como un problema en el mercado de hipoteca a mediados de 2007 se convirtió en una crisis sistémica que lisió los mercados de crédito de los países desarrollados. Esto tendrá indudablemente un impacto extremadamente negativo en la economía verdadera, aunque, a finales de 2008, es demasiado pronto como para calibrar exactamente el impacto completo de la crisis.

La profundidad y la duración de la recesión dependerán de la eficacia de las medidas tomadas para estimular demanda y para compensar la depresión en el gasto privado, así como en la normalización de los mercados de crédito. Es de esperar que el arsenal de medidas ejecutadas por la Reserva Federal de Estados Unidos y otros bancos centrales tendrá éxito en contener el riesgo sistémico y que, conjuntamente con la recuperación de sus sistemas financieros así como las medidas de la política fiscal, las economías desarrolladas comenzarán a emerger de las profundidades de la crisis hacia la segunda mitad de 2009. Éste es el panorama bastante optimista en el cual se basan las proyecciones del crecimiento para la región para 2009.

Aunque la región está mejor preparada que antes para manejar una crisis, hay un número de maneras por las cuales sus efectos pueden transmitirse a las economías de América Latina y el Caribe. Primero, la retardación global bajará los volúmenes y los precios de exportación, las remesas, la inversión directa extranjera y la demanda para los servicios del turismo. Además, el financiamiento externo será más costoso y será más difícil de obtener para los países de la región.

La deterioración de los indicadores del mercado de trabajo y la declinación en remesas tendrán un impacto negativo en la distribución de ingresos en la región. Bajo las circunstancias actuales, esto significa que los responsables de políticas públicas harán frente al doble desafío de ejecutar medidas contracíclicas para estabilizar el crecimiento económico y desarrollar instrumentos para proteger los sectores más vulnerables de la población de los efectos de la crisis. Los recursos fiscales disponibles para cada país para la financiación de este tipo de acciones de la política diferencian considerablemente, aunque las finanzas públicas en general vendrán bajo mayor presión, dada la disminución prevista de réditos fiscales. ■

El crecimiento económico de la América Latina y del Caribe se retarda pero se aumenta el comercio con la India

Banco de Importación y Exportación de la India

El crecimiento económico de la América latina y de la región del Caribe (ALyC) en 2009 se supone que se retardará debido a la crisis financiera global, originando de los Estados Unidos, uno de sus mercados importantes, dice un estudio profundizado hecho por el Banco de Importación y Exportación de la India. Pero el comercio bilateral de la ALyC con la India, sin embargo, está aumentando, dice el estudio.

El funcionamiento macroeconómico en América Latina y el Caribe (ALyC) era impresionante en 2007, a pesar de las interrupciones financieras en los Estados Unidos. Éste era el cuarto año consecutivo de crecimiento fuerte. La inflación estaba bajo control en casi todos los países, y los equilibrios fiscales y externos seguían siendo positivos para la región en conjunto. Contra este contexto del crecimiento con estabilidad, el desempleo y la pobreza han continuado disminuyendo. La primera meta del Desarrollo del Milenio para 2015, reducir la pobreza extrema a mitad de sus niveles de 1990, está dentro de alcance para la mayor parte de los países.

Sin embargo, 2007 también vio un descenso en variables macroeconómicas importantes. En varios países, la situación fiscal comenzó a deteriorar porque la tendencia hacia el gasto público creciente pasó considerablemente al aumento en réditos. Los balances de cuentas corrientes en la mayoría de los países comenzaron a debilitarse o eran ya negativos. La reducción reciente en índices de desempleo era muy modesta, sugiriendo que las limitaciones estructurales en los mercados de trabajo y los precios crecientes de alimento y la energía en varios países comenzaban a ser reflejados en una inflación más alta.

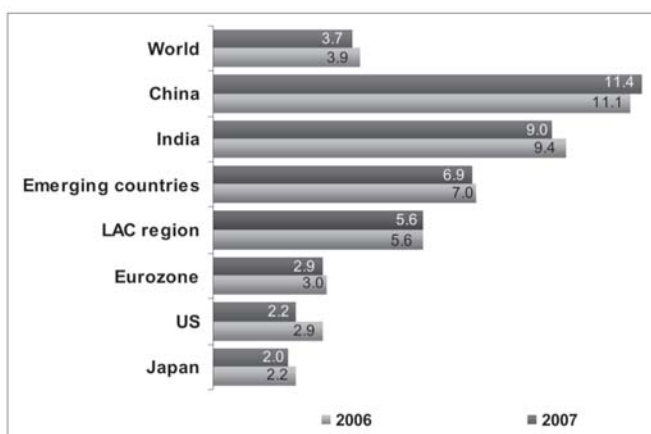
Bajo las circunstancias, la validez de políticas macroeconómicas, la eficacia de políticas sociales y la sensibilidad de sistemas políticos serán puestas a la prueba en 2008. No sólo deben el crecimiento y la estabilidad ser preservados, sino las expectativas cada vez mayor de parte de la gente en la región para alcanzar una mejor calidad de vida y de sociedades más inclusivas, más equitativas deben ser realizadas.

Panorama global

A pesar de la turbulencia del mercado financiero en el mundo desarrollado, la economía global creció un 3.7 por ciento en 2007 - casi al mismo paso que el año pasado. En los Estados Unidos, el crecimiento bajó 0.7 puntos de porcentaje a apenas sobre un 2.0 por ciento,

y en la zona euro se deslizó de un 3.0 por ciento en el 2006 a 2.9 por ciento en 2007. No obstante, el crecimiento en economías emergentes en conjunto seguía siendo vigoroso a apenas bajo 7.0 por ciento. China y la India estaban en la vanguardia, con un crecimiento estimado de 11.4 por ciento y de 9.0 por ciento, respectivamente (Cuadro 1).

Cuadro 1: El Producto Interno Bruto por Región (PIB) Cambio de porcentaje



Fuente: Fondo Monetario Internacional (FMI)

Hubo una retardación más marcada en el volumen de comercio global, con las tasas de crecimiento disminuyendo de casi 9.0 por ciento en 2006 a apenas 6.6 por ciento en 2007. Sin embargo, porque el precio del aceite y otras materias continuaron su tendencia al alza, el valor del comercio global proliferó rápidamente en 2007. Los precios del petróleo, que hicieron un promedio de EEUU\$ 64 un barril en 2006, clavaron casi a EEUU\$ 100 un barril hacia finales de 2007. Los precios de los alimentos estaban también en la subida a través del año. En cambio, los metales demostraron claramente la tendencia a baja en mediados del año 2007.

Actuación económica en la región ALyC

América latina y el Caribe crecieron un 5.6 por ciento durante 2007, igual que el año pasado, según las últimas estimaciones por la Comisión Económica de Naciones Unidas para América Latina y el Caribe. El PIB per capita era un 18.0 por ciento más alto que en 2003, y el poder adquisitivo del promedio en América Latina estaba encima del 22.0 por ciento, reflejando el impacto positivo adicional de los términos del comercio y de las

remesas internacionales. En 2007, los ahorros nacionales representaron el 21.2 por ciento del PIB en los pagos corrientes y, como ha sido el caso por algunos años, eran bastante para financiar la inversión regional en su totalidad. Como porcentaje del PIB, la formación de capital fijo bruto excedió el 21.0 por ciento en 2007, el más alto nivel registrado en el período 1990-2007.

Las tasas de crecimiento para casi todos los países excedieron el 3.0 por ciento en 2007 (Cuadro 1). Entre los países más grandes, Argentina, Venezuela, Perú y Colombia fijaron las tarifas más altas, todas en o sobre el 7.0 por ciento; entre las economías más pequeñas, Panamá, la República Dominicana, Uruguay y Costa Rica tenían las tarifas más altas.

Cuadro 1: América Latina y el Caribe - Indicadores Macroeconómicos Selectos (2007)

Países	Crecimiento PIB (por ciento)	Inflación (por ciento)	Cuenta corriente (porcentaje de PIB)	Deuda pública (porcentaje de PIB)
Argentina	8.6	8.5	2.6	55.3
Bahamas	3.3	2.4	-21.1	4.4
Barbados	4.0	3.9	-4.3	10.6
Belize	3.0	3.5	-3.3	n.a.
Bolivia	3.8	11.9	11.5	37.7
Brazil	5.3	4.2	0.4	30.7
Chile	5.3	7.4	4.9	4.9
Colombia	7.0	5.4	-3.9	39.8
Costa Rica	7.0	10.1	-5.3	28.2
Dominican Republic	7.5	7.2	-4.2	16.7
Ecuador	2.7	2.7	3.4	28.1
El Salvador	4.5	6.2	-4.5	34.6
Guatemala	5.5	9.1	-4.9	21.6
Guyana	4.5	10.4	-15.7	n.a.
Haiti	3.3	8.1	1.6	30.6
Honduras	6.0	9.6	-6.9	19.9
Jamaica	1.5	8.5	-17.0	89.6
Mexico	3.3	3.9	-0.8	22.9
Nicaragua	3.0	12.8	-15.9	42.0
Panamá	9.5	5.5	-3.8	54.5
Paraguay	5.5	7.4	3.7	21.0
Peru	8.2	3.5	1.5	27.6
Suriname	5.0	5.6	6.6	14.8
Trinidad and Tobago	5.5	7.3	16.4	13.3
Uruguay	7.5	8.6	-2.6	56.5
Venezuela	8.5	20.7	9.6	14.0
América Latina y el Caribe	5.6	6.1	-2.0	30.0

n.a.: No disponible

Fuente: Comisión Económica para la América Latina y el Caribe (ECLAC)

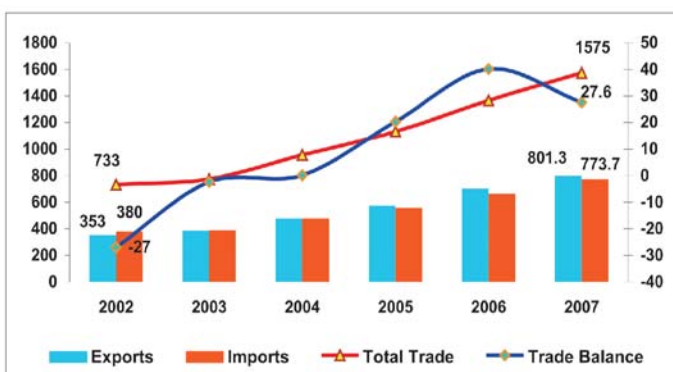
Venezuela, Chile, Paraguay y Ecuador alcanzaron excesos más altos. Los países de América Latina y el Caribe han estado aumentando reservas internacionales a un ritmo cada vez más rápido. De

Con respecto al sector externo, el comercio de mercancía total de la región ALyC aumentó en más de doble a EEUU\$ 1.575 mil millones de 2007 de EEUU\$ 733 mil millones de 2002. Las exportaciones de la región demostraron un aumento de más de doble a EEUU\$ 801.3 mil millones de 2007 de EEUU\$ 353 mil millones de 2002, mientras que las importaciones también crecieron en el mismo paso durante el mismo período (Gráfico 2). Los balances de cuenta corriente positivos y las reservas internacionales grandes en muchos países en la región proporcionaron una barrera intermediaria significativa contra interrupciones financieras externas. En 2007, América Latina y el Caribe en conjunto tenían un déficit por cuenta corriente equivalente al 2.0 por ciento de PIB del agregado (Cuadro 1). Como resultado de la bonanza de sus exportaciones del aceite y del mineral, Bolivia,

hecho, en 2006 y 2007 el paso del crecimiento de las reservas en los países se aceleró como resultado de la intervención en el mercado de divisas motivada por la preocupación de algunos bancos centrales

(particularmente los de Argentina, Brasil y Colombia) por el nivel de sus tipos de cambio verdaderos. Las reservas aumentaron en el equivalente del 1.0 por ciento del PIB en 2004 y 1.6 por ciento en 2006, y en 2007, se estima que alcanzarán el 3.5 por ciento del PIB regional. Las reservas internacionales en la región están más de tres veces más arriba que la cantidad de deuda a corto plazo. Varios países tenían acumulaciones muy grandes de reservas en 2007, particularmente antes de la crisis en el mercado de hipoteca de los E.E.U.U. La crisis retardó esta tendencia pero no la invirtió. A finales del noviembre de 2007, Brasil había aumentado sus reservas internacionales en EEUU\$ 91.0 mil millones y Colombia en más de EEUU\$ 5.0 mil millones. Las reservas internacionales totales de la región de la ALyC se aumentaron por más que doble para alcanzar EEUU\$ 414.0 mil millones en noviembre de 2007 desde EEUU\$ 201.0 mil millones de 2003.

Gráfico2: Tendencias en el Comercio Exterior ALyC (EEUU \$ Mil Millones)



Fuente: FMI, Direction of Trade Statistics (DOTS)

El cociente de la deuda pública/PIB bajó otra vez en 2007, a

30.0 por ciento del PIB, de un promedio simple de 37.6 por ciento en 2006. Durante 2002-2007, el cociente del deuda pública/PIB bajó por cerca de 30.0 por ciento del PIB (a partir del 60.7 por ciento en 2002 a 31.8 por ciento en 2007 a nivel del gobierno central). Los factores que contribuían más a este cambio eran fluctuaciones agudas en variables macros (las variaciones del tipo de cambio y del tipo de interés y la gran volatilidad de la actividad económica) y procesos de reestructuración de deuda. Los países adonde el cociente del deuda pública/PIB bajó más en 2007 (el más de 10.0 por ciento del GDP) eran Bolivia, Honduras y Nicaragua. Estos tres países incorporaron a la iniciativa de los Países Pobres Muy Endeudados (HIPC) y la Iniciativa Multilateral de la Condonación de la Deuda, permitiéndoles reducir su deuda pública considerablemente.

Perspectivas y desafíos

Como en otras partes del mundo, las economías latinoamericanas están haciendo frente a una combinación torpe de actividad retardada, condiciones externas más difíciles, y alta inflación. Después de cuatro años de crecimiento fuerte, el ritmo disminuyó en la mayoría de las economías de la región durante la primera mitad de 2008, en gran parte debido a exportaciones moderadas. Los países en la región también han estado haciendo frente a condiciones externas más difíciles estos últimos meses.

Total, el crecimiento del PIB se estima que baje desde el 5.6 por ciento en el 2007 a 4.5 por ciento en 2008. El crecimiento de la región se proyecta

Banco de Exportación e Importación de la India en la región de ALyC

Banco de Exportación e Importación de la India (Exim Bank) ofrece una gama de préstamos, programas de los servicios y atención para facilitar y para promover el comercio de la India y relaciones de la inversión con la región de América Latina y el Caribe (ALyC). Exim Bank tiene actualmente 14 LOCs operativos que tienen el valor de EEUU\$ 163.6 mn abarcando 17 países en la región de ALyC. Exim Bank también ha firmado MOCs con un número de instituciones en la región de ALyC, que incluyen: Asociación de la Industria y Comercio del Caribe (CAIC), Trinidad y Tobago; Banco Mercantil, Venezuela; Banco Centroamericano para la Integración Económica (BCIE), Honduras; y Corporación Andina de Fomento, Venezuela. Además, el Banco ha apoyado varios exportadores indios de proyectos para ejecutar contratos, en la región de ALyC, incluyendo: Praj Industries - proyecto de la planta del etanol (Colombia); Aarti Drugs- productos farmacéuticos (México); GPCL - Proyecto de ayuda de emergencia del El Niño (Guyana); Jyoti Structures Ltd. - transmisión de energía (Brasil); y Larsen & Toubro Ltd. - Construcción (Barbados). El banco también ha realizado un número de estudios de investigación para examinar el comercio de la India y el potencial de la inversión con la región de ALyC. Recientemente, para fortalecer las relaciones comerciales con la India, una delegación de alto nivel de Perú visitó la oficina central del Banco en Mumbai el 7 de junio de 2008. La delegación fue encabezada por el Sr. Juan Carlos Mathews, director ejecutivo, Agencia de Fomento de la Exportación de Perú-PROMPEX.

disminuir aún más al 3.3 por ciento en 2009. El crecimiento en Brasil vendría aún más debajo de tendencia, y la actividad seguiría siendo lenta en México como las exportaciones y las remesas han disminuido por la retardación de los E.E.U.U. Se espera que el crecimiento en América Central y el Caribe también disminuya, reflejando el impacto del crecimiento lento de los E.E.U.U. en las remesas, comercio, y turismo, así como altos costes de combustibles.

La inflación de precio de consumo para la región en conjunto se aumentó a 8.0 por ciento en agosto de 2008, a la tasa más alta de cinco años, aunque se estime que se haya moderado a 7.9 por ciento en la última parte de 2008, y aun más a 7.3 por ciento en 2009, debido al ablandamiento de precios de las materias primas internacionales, políticas monetarias más apretadas, y retardación en la demanda. No obstante, la inflación seguirá en los niveles de dos dígitos en un número de países en la región, incluyendo Bolivia, Paraguay, Venezuela, y varios países centroamericanos.

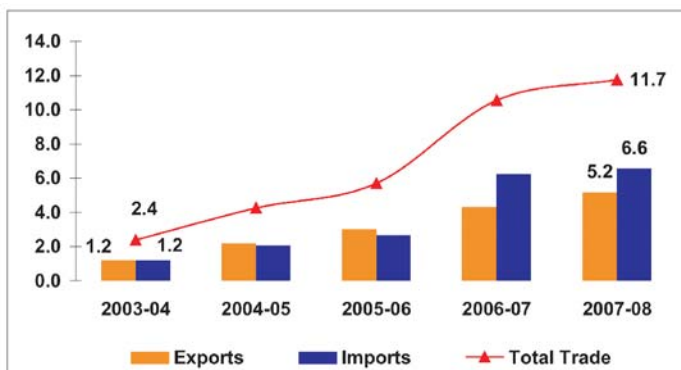
Las posiciones externas son generalmente robustas, aunque la turbulencia en la economía global pueda erosionar los amortiguadores que se han acumulado durante los últimos años. El balance de cuenta corriente de la región se estima haberse movido al déficit en 2008 (el 0.8 por ciento del PIB), después de estar en exceso desde 2003. En 2009, se espera que el déficit por cuenta corriente toque el 1.5 por ciento del PIB. Por otra parte, los niveles de la reserva son altos, y los tipos de cambio flexibles proporcionan el espacio de maniobrar en un número de países. En total, las vulnerabilidades del balance de sector público se han reducido y los grados de solvencia se han levantado - Brasil y Perú ambos alcanzaron grados del "grado de inversión" estos últimos meses. Sin embargo, las condiciones para la financiación del dólar E.E.U.U. han apretado en varios países durante el último mes, que - junto con una reducción continua en precios de materias - pudo estirar los armazones de la política macroeconómica.

Los riesgos a esta perspectiva están a la desventaja, relacionada en gran parte con factores externos. Un descenso más profundo en crecimiento global podría accionar una caída brusca en precios de las materias primas, mientras que las condiciones financieras externas que hacen frente a América Latina podrían continuar apretando. Tal panorama retardaría el crecimiento en la región aún más, y aunque la inflación moderara considerablemente, las posiciones externas podrían venir bajo tensión seria.

Tendencias en las relaciones comerciales entre la India y ALyC

La simbiosis en relaciones comerciales bilaterales entre la India y la región de la ALyC se puede determinar del hecho de que el comercio total entre la India y la región creció más que cuádruple de EEUU\$ 2.4 mil millones en 2003-04 a EEUU\$ 11.7 mil millones en 2007-08, representando un CAGR impresionante del 37.3 por ciento (gráfico 3).

Gráfico 3: Comercio de la India con la región de ALyC (EEUU\$ mil millones)



Source: Ministry of Commerce and Industry, Government of India

Las exportaciones de mercancía totales de la India a la región de la ALyC aumentaron de EEUU \$ 1.2 mil millones en 2003-04 a EEUU \$ 5.2 mil millones en 2007-08. Consecuentemente, la parte de la región de la ALyC en las exportaciones totales de la India también se levantó a partir del 3.8 por ciento en 2003-04 a 7.5 por ciento en 2007-08. La subida concurrente de importaciones de la región de la ALyC durante el período comparable verifica las relaciones comerciales crecientes en doble sentido, en donde la importación de la India de la región de la ALyC se levantó de EEUU\$ 1.2 mil millones en 2003-04 a EEUU\$ 6.6 mil millones en 2007-08, con una parte de 2.8 por ciento en las importaciones totales de la India, de una parte de 1.5 por ciento en 2003-04.

En lo que concierne a socios comerciales importantes en la región de la ALyC, Brasil sigue siendo la destinación principal para las exportaciones de la India durante 2007-08, representando un 43.6 por ciento de las exportaciones totales a la región de la ALyC. Otras destinaciones importantes de exportación incluyen México, Colombia, Argentina, Perú, Chile, Venezuela, Honduras y Guatemala. En cuanto a las importaciones de la India desde la región de la ALyC, Chile domina con una parte de 28.1 por ciento de las importaciones totales de la India desde la región de la ALyC durante 2007-8. Otras fuentes importantes de importación incluyen México, Brasil, Argentina, Venezuela, Panamá y Ecuador.

Aumentan los servicios indios baratos de consulta de ingeniería en el mercado global

- Un estudio del Banco de Exportación e Importación de la India



En el campo de los servicios de la consulta de ingeniería, la India tiene una ventaja definida debido a su capacidad de adquirir trabajos grandes del diseño, dice un estudio del Banco de Exportación e Importación de la India. Dice que muchas compañías indias se han distinguido en servicios globales de la consulta de ingeniería. La industria próspera de la consulta de ingeniería de la India deriva su fuerza de la reserva grande de profesionales calificados con niveles de productividad que emparejan estándares globales en costos mucho más bajos, el estudio dice. Y esta reserva de talento es restaurada constantemente por las instituciones educativas técnicas innumerables que existen por el país entero, dice el estudio de EXIM.

Los servicios de consulta de ingeniería son uno de los muchos dominios de la consulta cuya importancia ha crecido con el empuje en servicios de la infraestructura, especialmente en países en vías de desarrollo como la India. Los servicios técnicos de la consulta y de ingeniería incluyen una gama entera de servicios que se clasifican popularmente como de previo al proyecto, de la ejecución del proyecto y de post proyecto, implicando ampliamente actividades tales como determinación/evaluación de proyectos; evaluación del impacto ambiental, identificación y desarrollo/compra de tecnologías; preparación de informes de viabilidad, estudios de mercado; diseño de proyectos, adquisición e instalación de equipo; servicios de diseño de ingeniería, servicios de la gestión del proyecto, servicios de ingeniería arquitectónica/de construcción; y el comisionar del proyecto, operaciones y mantenimiento. La corriente de actividades incluiría los servicios para aumentar la capacidad, la eficacia

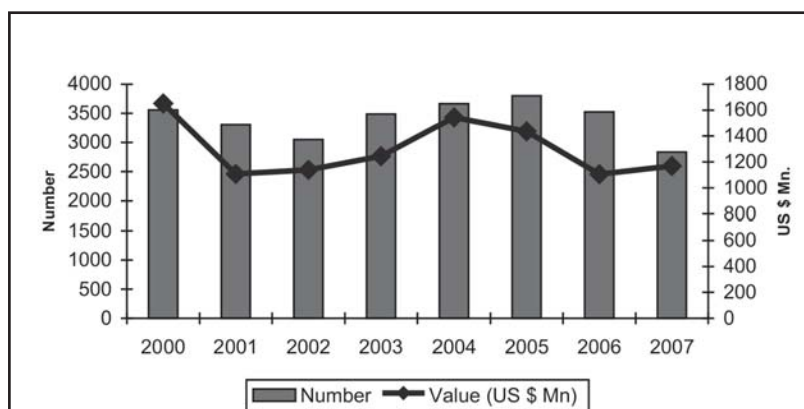
operacional, calidad y productividad. La tecnología es el componente más crucial de los servicios de la consulta de ingeniería; en algunos sectores, puede ser tecnologías del equipo, y en otros puede ser tecnologías de proceso.

PANORAMA GLOBAL DE LA CONSULTA DE INGENIERÍA

Según estudio de NASSCOM el gasto en servicios de la consulta de ingeniería a través del mundo se estima ser E.E.U.U. \$750 mil millones en 2004. Otro estudio ha estimado que la demanda de los servicios arquitectónicos en el mundo en el año 2006 era alrededor de E.E.U.U. \$112 mil millones, y la demanda para otros servicios de ingeniería fue calculada como E.E.U.U. \$600 mil millones. Asia es el mercado principal para ambos, los servicios arquitectónicos (una parte de alrededor de 32 por ciento de la demanda global) y los servicios de ingeniería (una parte de alrededor de 35 por ciento de la demanda global), seguido por Europa para los servicios arquitectónicos (una parte de 29 por ciento), y Norteamérica para los servicios de ingeniería (una parte de 26 por ciento).

Las agencias multilaterales de financiación (MFAs) por ejemplo el Banco Mundial, el Banco Asiático de Desarrollo, el Banco Africano de Desarrollo, el Banco Europeo para la Reconstrucción el Desarrollo apoyan la creación y el desarrollo de la infraestructura en los países miembros regionales, que proporcionan oportunidades para el comercio en productos y servicios, entre países miembros, incluyendo los servicios de consulta de ingeniería. Las MFAs, así, desempeñan un papel principal en impulsar el comercio exterior en servicios de consulta de ingeniería, con sus programas de préstamos.

Tendencias en Número y Valor de los Contratos de Consulta Concedidos por el Banco Mundial



Fuente: Banco Mundial

EXPORTACIÓN DE SERVICIOS DE CONSULTA DE INGENIERÍA DESDE LA INDIA

Las exportaciones de la consulta de ingeniería significan el adelanto tecnológico de la India, e indican la sofisticación cada vez mayor de sus capacidades en la consulta técnica, así como en la maestría arquitectónica y de ingeniería, y de las capacidades integradas de la ejecución de proyectos, dando mayor visibilidad en mercados de ultramar. Hay

que mencionar que los proyectos financiados multilaterales que implicaban procedimientos de licitación internacional formaron parte de los contratos de exportación conseguidos por las firmas indias de consulta de ingeniería. La puesta en práctica de la mayor parte de los proyectos de construcción financiados multilaterales requiere el uso de tecnología avanzada y de conocimientos técnicos. Las compañías indias de consulta de ingeniería han competido con éxito con las firmas de consulta más conocidas del mundo y han ejecutado con éxito los proyectos llave en mano y las actividades de consulta en varios países.

Según las estadísticas del Reserve Bank of India sobre balanza de pagos, la India exportó servicios de consulta de ingeniería por una suma de 32.87 mil millones de rupias en 2007-08. Además, las compañías indias exportaron servicios de construcción de 7.8 mil millones de rupias en el mismo año. La India es también un importador de servicios de consulta de ingeniería y de construcción. En el año 2007-08, la India importó servicios de consulta de ingeniería por una suma de 32.35 mil millones de rupias, y un adicional 6.93 mil millones de rupias a causa de la importación de servicios de construcción. Así, la India alcanzó un exceso neto de 870 millones de rupias bajo servicios de construcción, mientras que los servicios arquitectónicos, de ingeniería y otros servicios técnicos colocaron un exceso neto de 520 millones de rupias en 2007-08.

Tendencias de la India en la exportación y la importación de servicios de consulta de ingeniería

(en millones)

Asunto	Ingresos			Pagos			Exceso Neto		
	2007-08 P	2006-07 PR	2005-06 R	2007-08 P	2006-07 PR	2005-06 R	2007-08 P	2006-07 PR	2005-06 R
Construcción	7800	3320	2420	6930	7370	7240	870	-4050	-4820
Servicios arquitectónico, de ingeniería y otros servicios técnicos	32870	61340	31930	32350	36730	14140	520	24610	17790

Nota: P-Preliminar; PR-Parcialmente Revisado; R-Revisado

Fuente: Estadísticas de la balanza de pagos de la India, Reserve Bank of India.

PERSPECTIVAS FUTURAS DE LA INDIA

Durante los años, la India ha estado desarrollando sus capacidades de ingeniería, especialmente en los campos del diseño, I & D y consulta técnica a niveles que son comparables a estándares mundiales. Las capacidades de personales indios han crecido con las experiencias ganadas en instalar proyectos, en el contexto de un país en vías de desarrollo, en los segmentos de base como energía, irrigación, ingeniería pesada, máquinas de herramientas, textiles; y en los segmentos de proceso, como fertilizantes, perforación petrolífera, refinamiento del petróleo, productos petroquímicos, industrias química y metalúrgica.

Las multinacionales como Alstom y ABB llevan ya varias décadas en la India y han ganado reputación en la ejecución de proyectos de ingeniería. Estas firmas están sacando provecho de las capacidades de compañías indias como clientes, proveedores de servicios, también como socios. Para citar un ejemplo, Alstom ha implicado con NTPC para instalar una compañía de servicios de energía, y con BHEL para la producción de calderas críticas. Otra característica interesante es que tales líderes globales de servicios de ingeniería han establecido sus operaciones de I & D (Alstom se juntó con Infosys para establecer un centro de Investigación y Desarrollo) o centros de concepción (centro de concepción de Bechtel en Nueva Delhi) en la India para abastecer sus necesidades mundiales. Otro ejemplo que se podría mencionar es el Acuerdo Principal de Servicios de Ingeniería entre Jacobs India y el Centro del conocimiento de Du Pont, para la ejecución de proyectos de ingeniería a través del mundo.

Tradicionalmente, las Multinacionales han adoptado la estrategia de convertir sus sucursales indias en entidades indias. Las firmas como Mott MacDonalds, Aker Solutions se pueden incluir bajo esta categoría. Tales firmas también han colocado la India como centro de la atracción. Por ejemplo, Aker Solutions ha señalado la India como su eje global de adquisición. Estas compañías también valoran el fortalecimiento de relaciones con las compañías indias. Por ejemplo, Aker Solutions ha implicado

con la compañía india, Praj Industries, para establecer BioCnergy, una empresa conjunta, para aprovechar de las oportunidades del combustible biológico en Europa. Convencionalmente, las capacidades de ingeniería de la India se han desarrollado principalmente en el marco de las empresas del sector público, con el establecimiento de Consultores Metalúrgicos y de Ingeniería de la India, Engineers India Ltd, y Projects and Equipment Corporation of India, principalmente con el objetivo de edificar la infraestructura industrial en la India. TCE Consulting Engineers fue establecido por el Grupo Tata principalmente para abastecer a los requisitos de ingeniería del Grupo. Además, el gobierno de la India también ha establecido organizaciones específicas de consulta de infraestructura como Rail India Technical and Economic Services, e Indian Railway Construction Corporation (ahora IRCON Internacional Ltd), Telecommunications Consultants India Ltd., y Water and Power Consultants India Ltd. Más adelante, muchas organizaciones del sector privado entraron en la consulta de ingeniería y el área de servicios. Durante los años, las experiencias ganadas por las compañías indias les permitieron ofrecer sus servicios a clientes internacionales y les ayudaron en establecer una reputación internacional. La mayor parte de las firmas domésticas como MECON, EIL y TCE han establecido vínculos estratégicos con empresas extranjeras, como también con instituciones multilaterales como el Banco Mundial, el Banco Asiático de Desarrollo, y UNIDO.

El desarrollo de las capacidades de consulta y el negocio de consulta se relacionan directamente con el crecimiento del desarrollo industrial y económico de un país. Incluso durante una economía global sombría, se espera que la economía india continúe su ímpetu de crecimiento en un promedio de alrededor de 7.0 por ciento durante el año fiscal 2008-09 con ímpetu renovado hacia crecimiento de la infraestructura. La ventaja de la India en servicios de consulta yace en su capacidad para adquirir trabajos grandes del diseño. Puesto que, muchas compañías indígenas han probado ya su potencial en ofrecer servicios de consulta de ingeniería internacionalmente, la India posee las cualidades para desarrollar una industria próspera de consulta de ingeniería dado el gran número de instituciones educativas que producen profesionales técnicos con niveles de productividad igual a los estándares globales, en costos mucho más bajos. ■