LAC Trade Matters

Issue #59 **(9/15/08)**

In the News…

Confronting Food Insecurity in the LAC Region under Rising Food Prices – In recent years, USAID has directed considerable resources toward providing trade capacity building assistance to LAC countries that have negotiated free trade agreements with the United States. Earlier this year, however, the global crisis of rising food prices began to command increased attention by USAID. In response, the LAC Bureau, under the LAC Equitable Growth Best Practices Task Order with Chemonics, began monitoring food prices in selected LAC countries. This article, adapted from one of the initial products of this food price monitoring activity, identifies lack of access as the root cause of the region's food insecurity.

***Food Insecurity in the LAC Region* –** USAID's "1992 Policy Determination (PD) 19" defines food security as existing "… when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life." PD 19 also identifies three distinct but inter-related elements essential to achieving food security: (1) food availability: sufficient quantities of food are available from household production, other domestic output, commercial imports or food assistance; (2) food access: resources adequate to obtain appropriate foods for a nutritious diet, which depends on available income, distribution of income in the household and food prices; and (3) food utilization: proper biological use of food, requiring a diet with sufficient energy and essential nutrients, potable water and adequate sanitation, as well as knowledge of food storage, processing, basic nutrition and child care and illness management.

- ***Rising food prices* –** High prices are having an adverse effect on consumers throughout the LAC region, increasing the numbers of poor and threatening the already precarious nutrition situation that exists in some countries. **(continued on page 2)**

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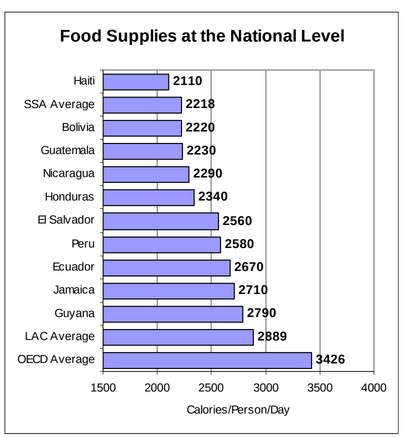
Consumers – Food price increases are having a negative effect on consumers throughout the region. Poor consumers are being affected proportionately more, as food accounts for a greater share of their household budgets, food prices have been rising faster than the general rate of inflation, and the prices of many of the poor's basic staples — grains in particular — have risen faster than average food prices. These developments are driving more people into poverty. The price increases are also causing the poor to make substitutions in their diets that likely impact negatively on their nutrition to the extent that these substitutions result in the consumption of less food and/or less nutritious food. Both urban and rural areas have been affected, particularly in Central America, where the majority of rural households are net food consumers. A recent study by World Bank economists (Ivanic and Martin, 2008) estimates that the recent price increases have had an especially negative effect on poverty in Haiti, Honduras and Nicaragua, a moderately negative impact in Bolivia, but a slightly positive impact in Peru, where relatively small farmers produce much of the rice crop.

Countries – World price increases provide some benefits to commodity exporting countries, notably in South America, raising income from exports and having a positive effect on economic growth. But increased exports also drive up local prices and domestic inflation rates. On the other hand, commodity importing countries are finding that food price increases are having negative effects on both GDP growth and inflation. Most Central American and Caribbean countries fall into this category.

- ***Underlying food insecurity.*** *Food insecurity was already a problem in many LAC countries prior to the recent increase in food prices, with some experiencing problems with all three dimensions of food security – food availability, access, and utilization.*

Food Availability – Measured by national-level food supplies (see graph on calories/person/day in selected countries), five of the ten LAC countries monitored by USAID's LAC Bureau already faced significant shortages in food supplies prior to the recent food price increases. Indeed, in this decade's first half, availability of food supplies per person in these five countries (Haiti, Bolivia, Guatemala, Nicaragua and Honduras) was close to the average for Sub-Saharan Africa (SSA). When one considers the high levels of inequality in most LAC countries, the amounts of food actually available to poor people were likely significantly lower than these already low averages. While inadequate food supplies in a given country may suggest that the solution to reducing food insecurity lies in increasing food production in that country, the real constraint may actually be lack of access to food, not lack of availability of food, as discussed in the following section.



Source: FAOSTAT 2002-04 for countries, 2003 for country groupings

Food Access – Poverty (lack of household purchasing power) is the root cause of food insecurity in many LAC countries, not the lack of availability of food. According to the World Bank, the situation is particularly serious in Haiti, where almost 54% of the population lives on less than $1 per day, and in Nicaragua, where over 45% fall below this threshold. Poverty not only restricts people's access to the amount and quality of food they need for healthy and productive lives; it also constrains their access to services such as health, water and sanitation, and education that can increase food security by helping to improve the biological utilization of food. If poor households in Haiti and Nicaragua had sufficient purchasing power to translate their nutritional needs into effective demand for food, domestic food production would increase or foreign exchange would be used to pay for the food imports required to make up the gap between total food demand and domestic production.

Food Utilization – Malnutrition, which is one of the best indicators of poor food utilization, is a serious problem in some LAC countries. In Guatemala more than 46% of young children suffer from chronic malnutrition (i.e., their growth is stunted). Rates of chronic malnutrition are 20% or higher in seven other countries: Bolivia (27%), Ecuador (23%), El Salvador (29%), Haiti (24%), Honduras (24%), Nicaragua (20%), and Peru (25%).

LAC Country Policy and Program Responses to Higher Food Prices

Not surprisingly, LAC countries have given priority, in the short run, to policies and programs to increase food availability of access. However, since most analysts expect food prices to remain at elevated levels at least until the early to middle years of the next decade, governments also need to take steps over the longer term to help their countries adjust to higher prices by improving availability of, access to, and utilization of food. Since the potential for higher prices to impact negatively on nutrition (the food utilization issue) has not yet received much attention in the LAC countries, the discussion below focuses only on LAC country efforts to increase food availability and access. Table 1 provides a summary of policy and program options available to LAC countries to address food availability and access objectives.

Short-Run

- ***Expand food availability*** – Most LAC countries are seeking to expand the supply of food available in their countries in the short run. Many have temporarily eliminated or reduced tariffs on imported food and/or have reduced domestic taxes (Bolivia, Brazil, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru). Several countries—Argentina, Bolivia, and Brazil—have also restricted food exports, a policy counterproductive to food security because of its adverse effects on domestic producer incentives as well as on global food supplies.

- ***Expand access to food*** – A number of countries–Ecuador, Haiti, Guyana, and Jamaica—have begun to subsidize certain basic foods. This represents an income transfer, but one that is available to all consumers regardless of need. Assistance to reach poor consumers would be more effectively targeted through food-for-work programs, subsidies limited to food products that are consumed almost exclusively by the poor, and/or targeted cash-transfer programs. The latter have been promoted in the LAC region by the World Bank (WB) and the Inter-American Development Bank (IDB), and a number of LAC countries (including Ecuador, Honduras and Jamaica) have programs in place that could be expanded as one response to the rising cost of basic foods. Such programs, however take time to design and implement well, so they may not be feasible for all LAC countries in the short run.

***Longer Run* --** Since most analysts expect food prices to remain at elevated levels, at least until the early to middle years of the next decade, governments will also need to take steps to help their countries adjust to these higher prices **over the longer run**. Here too, the distinction between food availability and access is useful.

Expand food availability – A number of countries – Bolivia, El Salvador, Guyana, Haiti, Honduras, Jamaica, and Nicaragua – have already taken some actions to stimulate local food production. These actions have been focused mainly on small producers. One would expect that these higher prices would make producing food more profitable than before, at least at the margin. But their impact on producers will depend on: the extent to which these price increases are transmitted to farmers; transactions costs; availability and cost of finance and inputs (including seeds and fertilizers, the costs of which also have been rising); and the extent to which farmers sell part of their output in the marketplace. Poor farmers in many LAC countries tend to be relegated to farming on small plots in some of the less fertile and more isolated areas of their countries. This is a major reason why many USAID Missions have refocused their agricultural programs on increasing farm incomes rather than food or agricultural production more generally. Many small farmers may find that their comparative advantage still lies in producing cash crops for higher-value, niche markets, while others will find that higher prices for basic grains offer an incentive to increasing production of these crops and/or adding value to them. The answers are likely to differ by country and by regions within countries. In the longer term, countries can also benefit from taking steps that help lower shipping and logistics costs for imported foodstuffs – trade facilitation efforts that USAID has supported – and improving the efficiency of domestic food markets.

Expand access to food – The World Bank and the IDB see cash transfer programs as a part of the longer-term solution to making it easier for poor LAC consumers to access nutritionally adequate diets. However, since lack of access to food – or poverty – is the underlying cause of food insecurity in the LAC region, governments should give renewed attention to policies and programs that will result in the creation of more and better-paying jobs for those at the lower end of the income distribution. This could include greater emphasis on agriculture, including promotion of cash crops and agribusiness development, as well as urban-based economic activity, which will require an improved climate for business activity. Programs to develop the human capital of the poor will also have an important role to play. Policies and programs that stimulate private investment and human capital formation, including technical and job-related training, will be of particular importance in the countries with larger urban populations.

Policy/Program Matrix

Time Frame	Policy Objective	
	Increase Food Availability	**Increase Food Access**
Immediate	• Lift restrictions on food imports (tariffs and taxes) • Draw down food stocks • Restrict exports	• Make food and/or cash transfers to poor households ➢ Feeding programs ➢ Food-for-work programs ➢ Conditional cash-transfer programs • Implement targeted food subsidies • Implement universal food subsidies
Longer-term	• Facilitate a supply response to higher food prices and improve agricultural productivity • Facilitate improvement in food trade, including lowering shipping and logistics costs • Facilitate improvements in the efficiency of domestic food markets	• Develop cash-transfer programs where none exist • Support policies/programs to increase employment and incomes earned by poor households via support to cash crops, agribusiness development, and urban-based private investment • Develop/expand programs that develop human capital of the poor

Source: Adapted from a report prepared by Roberta Van Haeften with technical support from Clarence Zuvekas, Violeta Roman, & Peter Bittner, under USAID LAC Equitable Growth Best Practices Task Order with Chemonics.

In the News… (continued)

Trade-Led Agricultural Diversification (T-LAD) for CAFTA-DR Countries – The United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) represents a new phase in the commitment of the U.S. to advance trade-led economic growth in Latin America and the Caribbean. All of the CAFTA-DR countries share an overarching concern as they work to implement the treaty: how to achieve the structural reforms that are particularly needed to enhance the capacity of the agricultural sector to generate economic growth that can reduce rural poverty.

Rising to the challenge of diversifying the agricultural sector to become an engine for economic growth in the CAFTA-DR countries takes on special importance in the context of the recent crisis of rising food prices. Indeed, to the extent that these countries are food insecure, this is not due to a lack of availability of food but rather because poverty and inequity translate into a lack of access to (insufficient income to buy) the food that is available. Trade-led agricultural diversification (T-LAD) offers the potential for the CAFTA-DR countries to use trade in value-added products and/or higher value crops as an engine to raise farm and rural incomes, thereby increasing the purchasing power of the poor to buy food.

To support the CAFTA-DR countries in responding to the challenge of diversifying their agricultural and rural economies, USAID recently completed a study to assess these countries' capacity to diversify their agricultural sectors. The study is titled *Optimizing the Economic Growth and Poverty-Reduction Benefits of CAFTA-DR: Accelerating Trade-Led Agricultural Diversification*.[1]

Study Findings – As countries implement CAFTA-DR, they face a number of significant impediments to diversifying their agricultural and, more broadly, rural sectors:

- ***The influence of protectionism continues***: Despite varying degrees of trade and price liberalization, the economies of all CAFTA-DR countries continue to be constrained by weak domestic institutional structures as well as by vestiges of protectionist policies in both the public and private sectors.

- ***High levels of rural poverty persist***: Despite increased remittances from abroad and expanded public assistance to the rural poor, the region continues to register high levels of rural poverty. This fact is due primarily to the importance of lower-value basic grains to the region's economy. Rural poverty figures in CAFTA-DR countries have stagnated or increased in recent years.

- ***Industrial growth failed to reduce rural poverty***: Industry has not generated enough jobs or increased wages to significantly reduce rural poverty. While agriculture's share of total employment has declined in relative terms, and net migration to urban areas (and abroad) has continued, many of these rural emigrants have ended up in low-productivity service occupations, often in the informal sector. The number of workers employed in agriculture — primarily in producing lower-value basic grains — has grown significantly in most of the countries reviewed by this study.

- ***Support to the agricultural sector has been weakened***: As countries sought to adopt fiscal restraint as part of IMF structural adjustment programs, they tended to favor reduced spending over increased taxes. As a result, public sector and donor funding for the agricultural sector was reduced without a concomitant stimulation of alternative means to support producers and enterprises interested in responding to unprecedented market opportunities in the global economy.

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[1] This study, authored by David D. Bathrick, was completed the USAID/LAC Equitable Growth Best Practices Task Order. Technical support was provided by Clarence Zuvekas, Ben Friedman, and Peter Bittner; and by Marcela Correa during the study's initial phase under the LAC Trade 3 Task Order with Carana Corporation.

- ***Under CBI, the region made limited market gains***: Though the Caribbean Basin Initiative (CBI) provided potentially lucrative access to the U.S. market, CAFTA-DR countries were unable to adequately diversify their agricultural and nonagricultural sectors to more remunerative, competitive, and trade-linked enterprises. While the region saw significant increases in exports of nontraditional agricultural products (and in GDP) during the 1990s, growth rates since then have declined. In part, this is due to their diminished hold on the U.S. market for apparel assembly, fruits, and vegetables.

- ***Countries' agroindustries are insufficiently productive and competitive***: In all countries reviewed, the broad agroindustry sector — including both traditional agricultural primary production and agroindustrial processing — is becoming an important economic base. However, despite the market opportunities available under the CBI, the CAFTA-DR countries still have low levels of productivity and competitiveness. This condition will likely continue under CAFTA-DR unless the enabling environment is improved through regulatory reform and new investments in infrastructure, institutions, and human capital.

The barriers described above suggest a rural-based productive sector that is ill-prepared to compete either under CAFTA-DR or in the global economy. Small and medium-sized producers/enterprises have suboptimal access to market information, technology, technical/managerial skills, financing, or other support (such as irrigation), all of which they need to produce competitive, higher-value products that comply with CAFTA market requirements, including sanitary and phytosanitary standards.

Over the past 30 years, developing countries — including CAFTA-DR countries — have promoted agricultural/rural development using strategies drawn from two models: (1) a trade-led model, which has tended to stimulate economic progress and (2) a protectionist model, which has generally perpetuated poverty and dependence. Within the Latin American and Caribbean region, the trade-led model was used most successfully in Chile, where a broad network of agribusinesses — including agricultural producers and providers of related value-added processing/services — became a major driver of economic growth.

The trade-led model requires a strong national commitment to strengthening policies and support services. Such a commitment encourages investment in market-oriented agribusinesses that (1) link producers of differentiated traditional exports (e.g., high-value coffee and cocoa) to dynamic markets and/or (2) promote diversification from basic food crops (e.g., grains) into higher-value, resource-based enterprises — such as aquaculture, seafood, nontraditional fruits/vegetables, and certified forestry — many of which are linked to processing industries using advanced technologies.

Chile dramatically reoriented its agricultural sector toward export-led growth by unilaterally reducing tariffs and establishing a favorable enabling environment. This environment was created by investing in infrastructure, market promotion, research and development, financing, and human capacity, including efforts to reach small-scale producers. The model contributed to increased rural jobs and incomes and a notable decline in rural poverty, especially after 1990 when government programs reached the poor more effectively.

The clearest example of the alternative protectionist model is offered by southern Mexico under the North American Free Trade Agreement (NAFTA). While continuing to facilitate nontraditional exports, Mexico protected the large traditional components of its agricultural sector — dominated by small-scale producers of basic grains and other sensitive commodities — by maintaining high tariffs on competing imports. The Mexican government made cash payments to small-scale farmers of traditional crops but did little to help them cope with the risks associated with diversifying from basic food crops to higher-value products. With cash payments and without assistance, farmers had little incentive to diversify production to take advantage of markets opened by NAFTA.

Potential Actions – If CAFTA-DR countries are to capitalize on the treaty's potential to drive economic growth and reduce poverty, they need to develop and implement an aggressive campaign to rally their domestic institutions — government ministries, the private sector, nongovernmental organizations, universities, civil society, and donors — into a coalition committed to boosting trade-led agricultural diversification. As evidenced by Chile's experience, a national commitment over the long-term — one that transcends changes in political administrations — is essential to stimulating private investment. It is also necessary to attract the donor support required to integrate rural sectors into the international economy in a way that boosts rural employment and incomes enough to significantly reduce poverty.

In the increasingly competitive global economy, the CAFTA-DR countries should act quickly to make appropriate strategy, policy, program, and investment choices. This study recommends all stakeholders embrace the following actions in order to leverage the opportunities presented by CAFTA-DR.

Build consensus on a national, long-term commitment to promoting trade-led agricultural diversification. In each country, members of the public and private sectors need to discuss how they can partner to support and accelerate trade-led agricultural diversification. Potential items for discussion include reforms (policy, legal, and regulatory), institutional improvements, and incentives that can speed trade-led agricultural diversification. During such a discussion, stakeholders should address key areas of weakness as well as whether successful diversification will require more market-responsive institutional structures than traditional ministries of agriculture and trade associations and, if so, how they will create and support them. Such structures would offer opportunities for public-private partnerships.

- ***Strengthen policy analysis and strategic planning***. As countries implement CAFTA-DR, they will need strong policy analysis and strategic planning capabilities to help advance trade-led agricultural diversification. Both national governments and the private sector need to improve these capacities, and their discussions can be usefully informed by the expertise of agribusinesses. For example, government and business could establish a forum for policy and strategy discussions.

- ***Mount a public education campaign***. While general information about CAFTA-DR has been widely circulated, a credible and effective campaign is needed to counter the erroneous — but strongly held — positions advanced by politicians concerning the treaty's impact on rural areas. Such a campaign would explain the nature and purpose of the transition period, tariff rate quotas, and other relevant information. It would also describe the experiences of small and medium-sized producers who are successfully diversifying and competing.

- ***Strengthen technology development and outreach systems***. CAFTA-DR countries need to identify how they will help agricultural producers/processors develop and maintain technological capacities needed to apply the technologies required by international production and post-harvest standards. Doing so will enable producers/processors to become and remain competitive in global markets. Currently, these countries have limited installed applied research capacity, even for the traditional basic grains. In addition, they are not paying sufficient attention to the quality requirements of non-traditional products.

- ***Strengthen plant/animal health and food safety systems***. Central Americans skeptical of the benefits of CAFTA-DR point out that some of their exports to the United States do not gain entrance because they fail to meet sanitary and phytosanitary (SPS) standards. While true, many CAFTA-DR countries have made progress upgrading their SPS systems. However, because it is critical that the region's agricultural exports are not detained or delayed at the border, the United States and its CAFTA-DR partners should collaborate more intensely to identify how Central American SPS capacities can be upgraded. Given the recently highlighted problems with the safety of imported foods and President

- ***Invest in the region's human capital***. As with all sectors, today's agribusinesses rely heavily on technology and know-how. Throughout the region, many of those interviewed noted with concern the limited know-how at all levels, from production to management. Renewed donor support could make a significant contribution to strengthening the region's human resources by improving access to U.S. universities and by building local capacity to educate actors along the agribusiness value chain. A strong demand exists for post-graduate education to enhance skills and knowledge to increase competitiveness. Given this demand, CAFTA-DR countries should look for opportunities for agribusinesses and local educational institutions to collaborate to create curricula that produce the skill sets that agribusinesses are looking for in prospective employees.

- ***Improve and expand rural infrastructure, financing investments with both public and private resources as well as donor funds***. The rural areas of CAFTA-DR countries suffer to varying degrees from deficiencies in rural infrastructure, particularly roads and systems that handle energy, telecommunications, irrigation, potable water, and sanitation (an important element of meeting food-safety standards). To address these problems, governments, private sector groups, and donors could cooperate to identify priority infrastructure investments as well as potential sources of financing.

- ***Harness donor resources to implement a long-term strategy to achieve trade-led diversification***. While many officials interviewed lamented the scarcity of donor grant funds, a few of the countries with access to MCC monies have begun to promote the trade-led diversification of their agricultural sectors. However, all interviewees said that CAFTA-DR brings great uncertainty and opportunity, which will require the public and private sectors to respond to changing circumstances both quickly and with strategic end goals in mind, particularly during the critical start-up period. The agility needed for success will also require coordination among the public sector, private sector, and donors. Given the critical need to reduce investor and producer risks, donors should target their interventions to stimulate long-term commitments and demonstrate best practices that can be sustainably replicated.

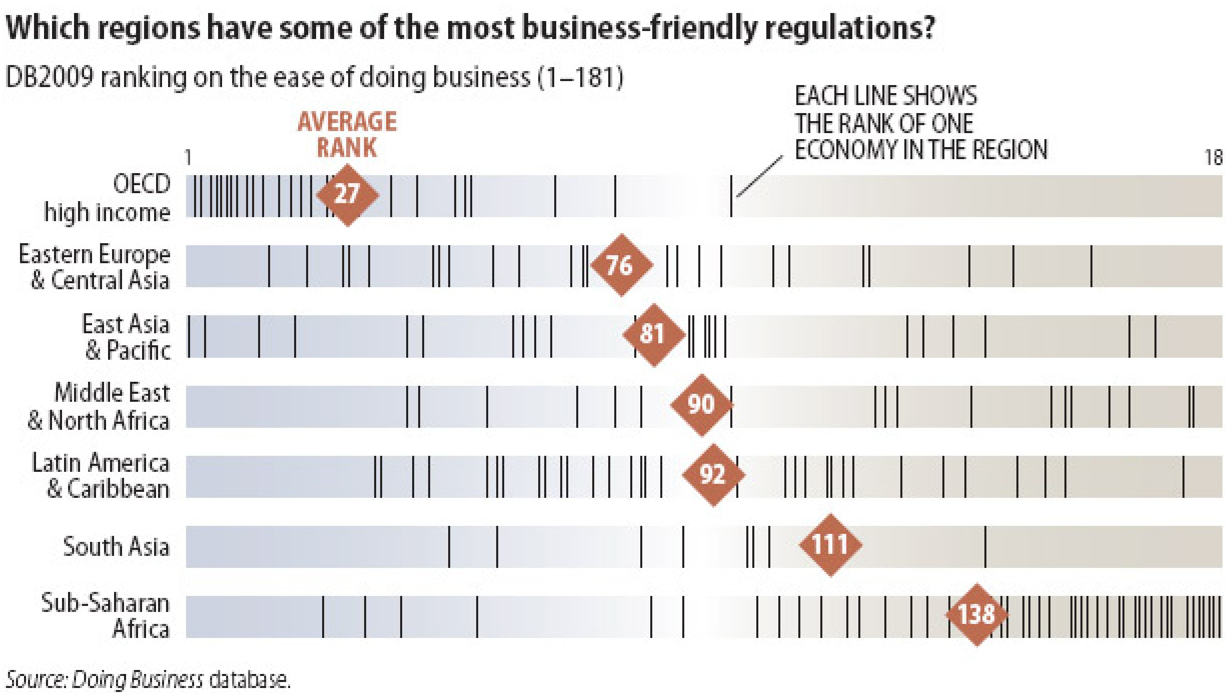
- Focus the donor and business communities in Washington, D.C., and in CAFTA-DR countries on coordinating support for agricultural diversification. Given that the agricultural sector has received limited attention in recent decades, from both governments and donors, CAFTA-DR countries should consider establishing a consultative group to achieve high-level coordination among donors, governments, and agribusiness.

Conclusion – The T-LAD study concludes that CAFTA-DR countries and donors need to direct much greater attention and resources to the challenge of capitalizing on the significant opportunities that the treaty affords for trade-led agricultural diversification. Public and private sectors — both internationally and domestically — have underestimated the potential of agriculture to promote economic growth and reduce poverty. As a result, there has been insufficient investment by both the CAFTA-DR countries and donor stakeholders in creating the conditions that would enable CAFTA-DR countries to benefit from trade-led agricultural diversification. However, if the needed reforms are aggressively pursued and the requisite investments quickly made, the CAFTA-DR countries can develop the enabling environment, institutional infrastructure, and human capacities that will provide a solid foundation for trade-led agricultural diversification to generate increased economic growth and reduce poverty in the Central American countries and the Dominican Republic.

Readers who would like a copy of the T-LAD Executive Summary or the individual reports (Vol. 1 – Regional Overview; and Vol. 2 – Country Reviews), please send an email to: kbyrnes@usaid.gov**.**

In the News… (continued)

Doing Business 2009: Five Years of Doing Business Reforms – Since 2004 *Doing Business* has been tracking regulatory reforms aimed at improving the ease of doing business by measuring their impact on 10 indicator sets. In this year's ranking, Colombia and the Dominican Republic were among the top ten reformers, although the LAC region as a whole still shows considerable room for improvement (see graph below).



Doing Business ranks economies based on 10 indicators of business regulation that record the time and cost to meet government requirements on starting and operating a business, trading across borders, paying taxes, and closing a business. (The rankings do not reflect macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.) For 2009, the most popular reform measures fell once again in the category of starting a business. Research suggests that reforms in Mexico have had a positive payoff: the number of registered businesses rose by 6%, employment increased by 2.6%, and prices fell by 1% due to competition from new entrants. After starting a business, the most popular reforms by indicator set were paying taxes and trading across borders. Electronic submission of customs documents proved the most popular for the trading across borders indicator. Between 2005 and 2008, reforms with an impact on this indicator have reduced the average time to export by 3 days.

Access more information on *Doing Business 2009* at the following link:

http://www.doingbusiness.org/Features/Feature-2008-22.aspx

LAC-specific *Doing Business 2009* information can be accessed at:

http://www.doingbusiness.org/Reformers/LAC2008.aspx

In the News… (continued)

LAC Continues to Grow, In Spite of Deteriorating International Economic Context – ECLAC (CEPAL News, Vol. XXVIII, No. 8, August 2008) reports that, in spite of the deteriorating international economic scenario, this year Latin America and the Caribbean will complete six consecutive years of growth, with Gross Domestic Product (GDP) rising 4.7%. This is one of the conclusions of the ECLAC's Economic Survey of Latin America and the Caribbean 2007-2008. Although growth in 2008 will be lower than the 5.7% in 2007, GDP per capita will rise over 3% in the region for the fifth consecutive year. This has not occurred in the economic history of Latin America and the Caribbean for 40 years.

Until 2007, regional growth was propped up by a favorable external context, with greater demand - particularly by China and India- for export products from the region. Terms of trade increased by nearly 33% last year, with regard to the average during the 1990's, although with differences in the sub-regions of Latin America and the Caribbean. The sub-region that most benefited from this rise was South America, while Central American nations were the least favored, being net oil importers.

Consistent with the results of the economic activity in the region, the ECLAC report highlights the significant improvement in labor market indicators. Unemployment rates have fallen gradually since 2003, reaching 8% in 2007, with an estimated 7.5% in 2008.

Poverty in the region also continued going down, having dropped over 9% since 2002, says the Economic Survey 2007-2008. This is due to economic growth, lower unemployment, and better quality jobs, as well as increasing non-wage income, such as remittances and conditioned transfer programs. However, poverty rates continue higher than in the early 1980's, with over 35% of the population -190 million people- living under the poverty line.

The volatility that has characterized financial markets since mid last year, and growing international uncertainty will have a negative impact on world growth. Economies in the region will not be the exception, although ECLAC expects they will not suffer the effects as deeply as in the past, given their greater economic strength.

This strength is due to, in the first place, greater fiscal solvency, with fiscal income rising above spending. In 2007, governments in the region had a primary surplus (including interest payments) of 2.3% of GDP (2.1% in 2006) and a global surplus of 0.3% of GDP (-0.2% in 2006). This has allowed governments to allocate greater resources to public investment and social spending, while accumulating resources and designing anti-cyclical instruments to face potentially unfavorable economic scenarios in the future.

Second, economies in the region have significantly reduced their public debt and have negotiated debts in better conditions (longer periods and more advantageous conditions). Public debt continued decreasing, falling from 36% of GDP in 2006 to 33% of GDP last year.

Third, during this period of growth, current accounts boasted a significant positive balance. In 2007, in spite of the deceleration, the current account surplus was US$18.5 billion, equivalent to 0.5% of regional GDP. Lastly, as of May this year, international reserves reached 13.4% of GDP in Latin America, and 17.4% in the Caribbean.

Risks and perspectives for the region – The region faces certain risks in the future. The main one is rising inflation rates, which in 2007 reverted its fall since 2002, and reached 6.5% (up from 5% in 2006). This reflects the rising food and oil prices in international markets since the second semester of last year. Increasing inflation has led central banks to mark up interest rates, which may make regional GDP contract.

In the News… (continued)/ **LAC Continues to Grow…(continued)**

Secondly, a deepening deceleration of the United States economy will affect especially Central America and Mexico, whose exports, particularly manufactured exports, are concentrated in that market. The economic situation in the United States could also impact the labor market, causing remittances from immigrant workers to their home countries to drop.

Lastly, the deceleration of developed economies could lower demand for primary goods and lead to a fall in their international prices, although ECLAC believes they will remain high with regard to 2003 prices, mainly in South America.

In spite of these risks, ECLAC underscores the positive regional growth figures for 2008. As in recent years, South America will grow more than Mexico, Central America and the Caribbean. Although the risks mentioned would have a moderate impact in 2008, economic deceleration will likely continue for some time, with which growth rates for Latin America and the Caribbean could reach approximately 4% in 2009.

Source: CEPAL News, Vol. XXVIII, No. 8, August 2008

Recent Events

Americas Competitiveness Forum II (ACF II) – The U.S. Department of Commerce/International Trade Administration sponsored the second annual Americas Competitiveness Forum (ACFII) from August 17-19, 2008 in Atlanta, GA. USAID/LAC participated in the Forum which serves as an opportunity for leaders from the private sector, government, and academia to discuss how to work together to improve competitiveness, trade and investment, and economic prosperity in the Americas. Specifically, ACFII focused plenary and break-out sessions around four main themes important to increasing competitiveness in the region: 1) Trade Logistics; 2) Alliances in Business and Education; 3) Renewable Energy and Sustainable Resources; and 4) Travel and Tourism. A number of dignitaries participated in the sessions, including Secretary Carlos Gutierrez (U.S. Secretary of Commerce) and the presidents of Colombia, El Salvador, and Guatemala. José Cárdenas, Acting Assistant Administrator of USAID/LAC, spoke on a panel entitled “Characteristics of a Successful Public-Private Partnership” during which he emphasized the importance of the private sector as an equal partner in the development process.

Meanwhile, USAID/LAC and Chemonics participated in a side meeting with representatives from Competitiveness Councils in the region. Chemonics is the implementing partner for the USAID/LAC Equitable Growth Best Practices task order. During the meeting, Chemonics presented initial findings from its survey of Competitiveness Councils in LAC (i.e., their structure, objectives, etc.) and received positive feedback from the council representatives. USAID/LAC and Chemonics plan to expand on their work in this area through a series of case studies looking at how Competitiveness Councils fit within and impact on a country’s broader competitiveness system, including related international donor projects. The results of this work will be shared with USAID missions and other stakeholders working to improve competitiveness in the region.

For more information on the ACF II, please visit the following site:

http://www.ita.doc.gov/competitiveness/ACF/index.asp

Source: Article contributed by Doug Pulse, LAC/RSD/BBEG

New TCB Resources

Latin America: Best & Worst – According to the third annual Latin Business Index from the *Latin Business Chronicle*, while Brazil may be the hottest destination in Latin America for foreign investors these days, the country with the honor of having the best business climate is Chile, with Panama just behind, followed by Peru, Uruguay, and the Dominican Republic. The Latin Business Index of 19 countries is the broadest measure of business climate in Latin America. Rather than looking at the size of a country's GDP or GDP per capita, the index looks at five key categories and 27 subcategories to measure the recent, current, and future business environment in a country. They are:

- Macro Environment (GDP growth 2006 and 2007, estimated growth this year and forecasted growth next year, inflation 2006 and 2007, estimated inflation this year and forecasted inflation next year).
- Corporate Environment (corporate tax rates, access to capital for entrepreneurs, ease of doing business (including starting and closing a business) and economic freedom).
- Globalization & Competitiveness (globalization, competitiveness, tariffs, education/ health and security for companies and businessmen).
- Technology Level (PC, Internet, broadband, wireless and fixed telephony penetration).
- Political Environment (political freedom, political stability, political outlook, business policies of government and corruption).

Access more detailed information at the following link:

http://www.latinbusinesschronicle.com/app/article.aspx?id=2368

Creating Value for All: Strategies for Doing Business with the Poor – Economic agents, including the private sector and governments, have continued to implement different strategies for doing business with the poor but failed to create values for all or integrate the poor into wealth creation. Part of UNDP's growing inclusive market's initiative, the report "Creating Value for All: Strategies for Doing Business with the Poor" showcases 50 case studies by researchers in both emerging market economies and developed economies around the world. These studies demonstrate the successful pursuit of both revenues and socio-economic impact by local and international small-and medium sized enterprises as well as multinational corporations. The report emphasizes that the power of poor people to benefit from market action lies in their ability to participate in markets and take advantage of market opportunities. Business models that include poor people require broad support and offer gains for all poor people.

To overcome all the obstacles to doing business with the poor, the report outlines what governments, non-governmental organizations (NGOs), donors, and international organizations can do to collaborate with the businesses. Five strategies that private businesses have successfully used to conquer the most common obstacles to doing business with poor people are identified. The recommendations are to adapt products and services; invest in economic infrastructure and training to eliminate constraints; leverage the strengths of the poor to increase the labor and management pool and expand local knowledge work with all economic agents in particular the private sector, NGOs and governments; and engage in policy dialogue with governments on how to improve the business environment. This report offers strategies and tools for the private sector to expand beyond traditional business practices and bring in the world's poor people as partners in creating wealth, spurring economic growth, sparking social change and also ensuring political stability across nations. Moreover, the report offers tools for businesses interested in more inclusive markets and profit making. (**Source**: World Bank PovertyNet Newsletter #117, August 2008).

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With rising fuel and commodity prices, the countries of the Caribbean and Central America are now facing an array of challenges which threaten the sustainability of economic development in the region. For the tourism and travel industry, cutbacks in flights to the region are expected to hurt these small fragile economies while poor performance in a recent World Bank study on logistics does not bode well, even at a time when costs of shipping from Asia seem to position the region to reclaim manufacturing opportunities.

The above are some of the issues that will be highlighted at the upcoming Miami Conference on the Caribbean and Central America. Also on the agenda is the discussion of Cuba and its integration into the regional economy; the Economic Partnership Agreement (EPA) between the European Union and the Caribbean and its impact on regional competitiveness; access to capital for large and small projects alike; the results of the US presidential election; the slowing of the US economy and how the new administration can re-engage the region.

For over 32 years, the Miami Conference has served as the only forum that focuses solely on the small economies of the Caribbean islands and Central American isthmus. The conference continues to unite leaders from the public sector, the business community and civil society together in a constructive open dialogue to address issues affecting the region and its economic prospects. The conference combines major addresses by political leaders with plenaries and workshops on industry and public policy issues.

For more information on the 2008 Miami Conference, please contact CCAA at (202) 466-7464, x28 or miami@c-caa.org.