LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Wednesday, September 20, 2023

FEATURED Q&A

What Is Holding Back the Region's Economic Growth?

Latin America and the Caribbean are expected to see lower growth than the world average next year. Lima is pictured, where Peru's central bank has estimated growth of 0.9 percent this year and 2.2 percent next year. // File Photo: Vengador1 via Creative Commons.

Q Latin America and the Caribbean are forecast to see economic growth of 1.5 percent next year, slightly below the 1.7 percent expected for this year, the United Nations Economic Commission for Latin America and the Caribbean said Sept. 5 in its annual Economic Survey. That level is below the 3 percent global growth level that the International Monetary Fund expects for 2024. What are the main factors holding back the economies of Latin America and the Caribbean? In the region, which economies will do best, and which will lag behind in the coming year? Which industries will thrive in the year ahead and which will struggle, and why?

A Pedro Francke, former Peruvian finance minister: "Latin America has had lower growth than the world average over the last four decades, a performance aggravated after the international financial crisis of 2009. It was also a region hit especially hard by Covid-19, in terms of mortality and GDP. So, unfortunately, the low growth projections for this year and next are not a surprise, none of the six large Latin American economies shows significant growth for 2023 and 2024 and, except for the rebound in tourism, no sector stands out with greater dynamism. There are short-term factors in this situation, such as increased interest rates for anti-inflationary purposes, the higher cost of debt and fiscal adjustments focused on reducing expenditures. Together, they configure a framework of contractionary macroeconomic policies that could be reviewed, especially when inflation shows a clear downward trend. There are also important long-term reasons for this low growth. One is the lack of innovation and technological development, a

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TODAY'S NEWS

POLITICAL

Colombian Gov't, Dissident FARC Faction Call Cease-Fire

The Colombian government and a dissident faction of the demobilized Revolutionary Armed Forces of Colombia, or FARC, rebels, called a cease-fire that is to reportedly last 10 months.

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POLITICAL

Biden Calls on U.N. to Establish Security Mission for Haiti

U.S. President Joe Biden called Tuesday on the United Nations to authorize a Kenya-led security mission for Haiti.

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POLITICAL

Díaz-Canel Blasts U.S. Over 'Ruthless Economic War'

Cuban President Miguel Díaz-Canel blasted the United States in his speech to the U.N. General Assembly, saying its embargo against Cuba has been "suffocating" to the island.

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Díaz-Canel // Photo: United Nations.

POLITICAL NEWS

Colombia, Dissident FARC Faction Call Cease-Fire

The Colombian government and a dissident faction of the demobilized Revolutionary Armed Forces of Colombia, or FARC, rebels on Tuesday announced that they will observe a cease-fire and hold peace talks starting Oct. 8, Agence France-Presse reported. The talks between the government and the Estado Mayor Central, or EMC, faction will take place in the Colombian town of Tibú, near the border with Venezuela. Local media reported that the government and the dissident faction had agreed to call the cease-fire for 10 months, AFP reported. The EMC is the largest FARC dissident group, and the government claims it is involved in cocaine trafficking and attacks on state troops. The negotiations are the results of months of talks between the two groups, AFP reported. Colombian President Gustavo Petro has said that he wants to give the dissident group a second chance to disarm after it rejected the government's 2016 peace agreement with the FARC, which led thousands of FARC members to transition into civilian life, Reuters reported. Petro, who took office last August, has promised to bring "total peace" to Colombia, which has suffered from decades of civil conflict. The latest round of talks between the Colombian government and the EMC began on Sunday, and included delegates from the European Union, United Nations and the Organization of American States.

Biden Calls on U.N. to Establish Security Mission for Haiti

U.S. President Joe Biden on Tuesday called on the U.N. Security Council to authorize a security support mission for Haiti, which has been wracked by soaring levels of gang violence and control. "I call on the Security Council to authorize this mission now," Biden said in a speech to the U.N. General Assembly. "The people of Haiti cannot wait much longer." Biden also thanked Kenya's president, William Ruto, for his willingness to have his country lead such a mission. "The United Nations must continue to preserve peace, prevent conflict and alleviate human suffering," Biden said. "We embrace nations stepping up to lead in new ways and to seek new breakthroughs on hard issues," he added. A U.N. Security Council resolution would authorize Kenya to lead a multinational force in Haiti and provide 1,000 officers for it, the Associated Press reported. Haitian Prime Minister Ariel Henry last October requested the deployment of a foreign armed force to help Haiti fight the gangs that have caused bloodshed and taken over parts of the country since the 2021 assassination of President Jovenel Moïse. [Editor's note: See related **Q&A** in the Aug. 17 issue of the Advisor.] In his speech to the U.N. General Assembly, Biden also condemned Russia over its war with Ukraine. "We have to stand up to this naked aggression today and deter other would-be aggressors tomorrow," Biden said. "That's why the United States, together with our allies and partners around the world, will continue to stand with the brave people of Ukraine as they defend their sovereignty and territorial integrity and their freedom."

Díaz-Canel Blasts U.S. Over 'Ruthless Economic War'

Cuban President Miguel Díaz-Canel blasted the United States Tuesday during his speech to the U.N. General Assembly, saying Washington has waged a "ruthless economic war" with "brutal" effects, the Miami Herald reported. "For 60 years, Cuba has suffered a suffocating economic blockade," said Díaz-Canel, calling the U.S. trade embargo of the island nation an "inhumane policy," and blaming it for shortages of food and medicine in Cuba. Díaz-Canel also said that Cuba poses no security threat to the United States. Díaz-Canel criticized what he called "unilateral coercive measures" that he

NEWS BRIEFS

Brazil's Lula Urges Action to Fight Inequality, Climate Change at U.N.

In his speech Tuesday to the U.N. General Assembly, Brazilian President Luiz Inácio Lula da Silva urged world leaders to fight inequality and climate change, CNN reported. "We must overcome resignation, which makes us accept such unfairness as a natural phenomenon," said Lula. "There's a lack of political will from those who govern the world to overcome inequality." Lula also urged wealthy nations to complete their funding goals for clean energy and fighting global warming.

Argentina's Economy Shrinks 4.9% in Q2

Argentina's economy shrank 4.9 percent in this year's second quarter as compared to the same period last year, marking its first contraction since 2020, the country's statistics agency said on Tuesday, Reuters reported. The agricultural sector registered the biggest drop, with a 40.2 decrease as compared to last year. The country is facing economic turmoil amid a prolonged drought, runaway inflation that reached 124 percent in August, a depreciating national currency and negative central bank reserves.

Venezuela Criticizes Guyana's Bidding Round for Offshore Oil Blocks

Venezuela's government on Tuesday criticized neighboring Guyana's offshore oil auction, which affords winning companies the right to explore the contested maritime areas, Reuters reported. "Venezuela strongly rejects the illegal licensing round being carried out in Guyana as it intends to use maritime areas that are subject of delimitation between both countries," Venezuela said in a statement. The two countries have been engaged in a longstanding dispute over their borders, which determine rights to territory rich in oil and gas.

said powerful countries use, and he rejected U.S. sanctions against Cuba, Venezuela and Nicaragua, the Associated Press reported. Díaz-Canel made no mention of Russia, which is also under U.S. sanctions, amid its war against Ukraine. "Many of Cuba's former associates in the nonaligned movement will be wondering why Cuba acquiesces in the Ukraine invasion, which is exacerbating the poverty of millions in the developing world," Paul Hare, a former British ambassador to Cuba, told the Advisor in a **Q&A** published Tuesday.

ECONOMIC NEWS

Argentina Seeking to Nationalize Hydroelectric Plants

Argentina's government is seeking to nationalize a group of hydroelectric plants whose concessions are expiring soon, Bloomberg Línea reported Tuesday. The plan will be discussed in Congress as part of the country's budget for 2024. Nationalization of the hydroelectric dams would only come into effect when concessions have expired, including four that ran out this year, though they have been extended for 60 days, with the possibility of an additional renewal of 120 days. Argentina has agreed to 13 concessions in total to operate hydroelectric plants in the country. In addition to the four that expired this year, three are scheduled to expire in 2024, two in 2025, another two in 2026, one in 2029 and one in 2044. Economy Minister Sergio Massa, who is also the ruling party's presidential candidate in October's election, said that once the concessions end, "the administration, operation and exploitation of each of the hydroelectric assets duly granted in concession will be assumed by Energía Hidroelécticas, which is part of [state-owned energy company] Enarsa," Bloomberg Línea reported. Massa will face far-right libertarian Javier Milei, who is leading the polls and is running on a platform to dollarize the economy, and former Security Minister Patricia Bullrich in the country's Oct. 22 presidential election.

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product of weak and inefficient industrial policies, the absence of growth strategies that last over time and a business community largely oriented toward rent-seeking. Another is historically high inequality, especially in education and health, which are fundamental to raising human capital. Finally, political instability and deterioration of democracy, with governments of very different orientations alternating in power with profound internal conflicts, increased corruption and crime."

A **Joydeep Mukherji, managing director of Latin American Sovereign Ratings at Standard & Poor's in New York:** "Growth is a long-term challenge for Latin America. According to Inter-American Development Bank data, per capita GDP growth was 1.8 percent on average between 1990 and 2019, compared with 3.5 percent in emerging Asia and 1.7 percent in advanced countries. Much of the growth in the region was due to higher inputs of labor, followed by improved skills. By contrast, increases in total factor productivity and in the capital stock have accounted for just over half the growth seen in Asia. The failure of Latin America to boost productivity despite many years of structural reform, including trade liberalization, reflects deep-seated political obstacles, social weaknesses and often poor leadership. Beneath the gloomy region-wide numbers, there is some diversity. For example, Panama has grown at an average pace of 5.3 percent since 2000, followed by the Dominican Republic at 4.8 percent and Peru at 4.4 percent. The success of some countries in growing faster indicates that nothing is inevitable. In fact, global population growth and more use of renewable energy provides opportunity, especially for South America, to strengthen economic growth prospects, thanks to favorable long-term demand for food and minerals such as lithium, copper and silver. The region's farms can also meet growing demand for food, thanks to fertile lands and abundant water in many countries. Latin America's history suggests skepticism about its ability to take full advantage of commodity cycles, which often encourage populism and bad policies. However, carefully designed fiscal, monetary and other policies can moderate the ups and downs of commodity price cycles and sustain stable economic performance."

A **Vangie Bhagoo-Ramrattan, head of the economic research unit at First Citizens in Port-of-Spain, Trinidad and Tobago:** "Caribbean economic prospects are highly dependent on the global economy as most of the region relies heavily on sectors that are primarily driven by the external environment. The World Travel and Tourism Council estimated that travel and tourism accounted for approximately 12 percent of the total Caribbean economy in 2022. The sector also substantially contributes to the labor market, providing around 15 percent of jobs in the region. While many countries have recouped the economic losses of the pandemic, the region faces significant economic headwinds given several factors in the global environment that taint the outlook. The culmination of relatively high global inflation, tighter monetary policies and withdrawal of fiscal stimulus will affect the demand for tourism and travel in the region. The higher cost of travel may also impede the growth of the Caribbean tourism sector, particularly because many Caribbean countries operate a fixed-exchange framework, pegged to the U.S. dollar, which has been strong due to higher U.S. interest rates. This makes Caribbean vacations less competitive relative to countries that operate a floating exchange rate. The threat of higher fuel and food prices is another headwind to the Caribbean's outlook, as it will place additional pressure on already onerous external imbalances. Further, the inherent threat of natural disasters places a significant burden on the region's fiscal sustainability as well as economic

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growth prospects. As the countries of the region also consolidate fiscal accounts in the aftermath of the pandemic, spending may be curtailed, which is also likely to curb aggregate demand and overall economic activity. The Caribbean is home to small and extremely open economies with narrow economic and revenue bases. Lack of fiscal flexibility, high indebtedness—worsened by the incremental need for government spending during the pandemic and low economic growth—have challenged the region for decades. And while many of the countries have made progress in addressing these issues through the implementation of fiscal responsibility frameworks and other key economic reforms under IMF programs, getting closer to potential or trend growth will require discipline and execution of critical policy."

A **Scott MacDonald, chief economist at Smith's Research and Gradings and fellow at the Caribbean Policy Consortium:** "In the last several years, Latin America and the Caribbean were hard hit by Covid-19, inflationary pressures caused by the Russo-Ukrainian War and U.S. Federal Reserve interest rate hikes, Sino-American trade tensions, and an elevated level of political risk. The results were high inflation, slow growth, sizable fiscal deficits and more onerous debt loads for several countries (Argentina and Ecuador stand out in this regard). Many of the above factors are likely to continue into 2024. The region's challenges are structural and related to the need to digitalize at a greater speed as well as accelerate the development of human capital necessary to handle such a transition. Further efforts are needed to reduce an enduringly uneven distribution of income, improve personal security and determine how to finance the energy transition to renewables, which is critical to dealing with climate change. Yet another drag on regional growth is China's cooling economy. There may be some silver linings in the dark clouds. Although China's growth is cooling, it remains a major purchaser of Latin America's energy and food. The scramble for critical metals (such as lithium and copper) needed for the global energy transition is resulting in an uptick in new foreign investment in Argentina, Brazil, Bolivia and Chile. In the Caribbean, Guyana, one of the world's newest petrostates and expected to achieve a 38 percent growth rate in 2023, is well-placed to ride the uncertainties in 2024, as is the Dominican Republic. U.S. growth is expected to slow in 2024, but this could bring interest rates down, potentially loosening capital markets, helping Latin America. One major factor for Latin America that will become increasingly pronounced in 2024 and beyond is its role in the great energy transition, due to its holding many of the key ingredients for the future."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue ISSN 2163-7962

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005
www.thedialogue.org

