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Annual Predictions Survey 2008

Editor's note: we are pleased to publish the sixth and final installment in this year's series of the Latin America Advisor's "Annual Predictions Survey" results. This annual feature captures the latest forecasts, data, and analysis from regional experts.

Q Strong global economic growth in recent years has come with some unwelcome side effects in many countries in Latin America, including sky-high oil prices and rising food costs. Such supply and demand problems come on top of existing challenges facing the region, such as management of water resources, fisheries, and forests. What impact will growing global and regional demand for ever-scarcer natural resources have in Latin America in 2008?

A **Guest Comment: Gabriel Marcella:** "Because of rising global demand for its minerals, food, and petroleum, and the large flow of remittances, Latin America had solid economic growth in the last five years, exceeding 5 percent in 2007, thereby reducing poverty to nearly 38 percent of the population from a high of 43 percent, while increasing per capita purchasing power by 24 percent. Two thousand and eight may see slower economic growth due to potential recession in the United States and high prices for energy. In order for the region to achieve sustained growth and compete in the global 'knowledge economy,' the World Bank recommends going beyond the orthodoxy of the 'old economy,' which focused on exploiting the comparative advantage of the natural resource 'endowment.' Accordingly, Latin American

countries should utilize their natural resource endowment in order to grow faster and improve the quality of jobs. To do this they need to: foster trade integration, market access, and greater external and internal investment flows; integrate information and communications technology; build human capital through better education, research, development, and innovation; and develop public infrastructure and institutions, such as the rule of law, property rights, transparency, and eliminating excessive regulatory burdens.

Continued on page 3

PHOTO OF THE DAY



Colombia's high commissioner for peace, Luis Carlos Restrepo, said Tuesday the government would guarantee the safe passage of FARC rebels seeking to release three hostages. See story on page 2.

Photo: Casa de Nariño

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NEWS BRIEFS

Mexican Farmers Protest Opening to US Agriculture Exports

Farmers and their supporters staged demonstrations throughout Mexico on Tuesday as tariffs on US exports of sugar, corn, milk, and beans were lifted under the the North American Free Trade Agreement, Bloomberg News reported. Along the US-Mexico border, Mexican protesters blocked all but one lane of the bridge linking Ciudad Juarez and El Paso, Texas, saying Mexico hasn't done enough to protect Mexican farmers from cheaper US commodities.

Codelco Hopes for Resolution to Strike by Port Workers

Chile's **Codelco**, the world's largest copper producer, is hoping for a resolution soon to a strike by workers at its Angamos port, which ships copper from its largest division, Codelco Norte, Reuters reported on Tuesday. Codelco said the week-old strike by workers for the port operator **Ultraport** demanding higher bonuses has not affected its ability to fulfill obligations to customers. Codelco says it has "commercial mechanisms" to deal with the situation.

Chilean Volcano Erupts; 150 People Evacuated

A volcano in southern Chile erupted on Tuesday, spewing lava and ash, and forcing the evacuation of about 150 tourists and National Forest Service employees, officials said, according to the Associated Press. The Llama volcano, located about 400 miles south of the capital, Santiago, last erupted in May, but has not suffered a major blast since 1994. If necessary, residents will be evacuated from Melipeuco, a town of at least 5,000 located eight miles from the volcano, officials said.

Political News

Colombia Says it Will Guarantee Safe Passage of FARC for Hostage Release

The Colombian government said Tuesday it would guarantee the safe passage of FARC rebels seeking to hand over three hostages to the government of Venezuelan President Hugo Chavez. Colombian High Commissioner for Peace Luis Carlos Restrepo said the government was only waiting for the Red Cross to tell it in which area of the country to create a "humanitarian corridor" so it could instruct the military to suspend operations in that area. "Let them tell us in which territory the operation is going to take place so that the armed forces there do not shoot and put the humanitarian mission at risk,"

Relations between the two countries have since plummeted, marked by an exchange of sharp verbal attacks by Chavez and Uribe.

Economic News

Venezuela Launches New "Strong Bolivar" Currency

Venezuela on Tuesday began the New Year by launching a new currency—temporarily called the "strong bolivar"—slicing three zeroes off the existing bolivar. The plan is to revert to calling the currency the "bolivar" again in the future, once the Central Bank of Venezuela determines the transitional period has elapsed, the government said on its Web site. President Hugo Chavez's administration came up

“ Let them tell us in which territory the operation is going to take place so that the armed forces there do not shoot and put the humanitarian mission at risk. ”

— Luis Carlos Restrepo

Restrepo said, according to a [press release](#) posted on the presidential Web site. Restrepo's comments came two days after highly anticipated plans to release the three hostages—former vice presidential candidate, Clara Rojas, her three year-old son Emmanuel, and former congresswoman Consuelo Gonzalez—fell apart, with the FARC blaming Colombian military operations for its decision not to tell where in Colombia's eastern jungles two Venezuelan helicopters could pick up the captives. Colombian President Alvaro Uribe dismissed the rebels' accusation as more lies from a "terrorist group," while Chavez sympathized with the FARC and accused Uribe of "throwing a bomb" on his efforts to recover the hostages. Chavez had been negotiating a swap of dozens of FARC-held hostages for rebels imprisoned in Colombian jails until Uribe suddenly terminated Chavez's involvement in November, accusing the Venezuelan leader of overstepping his mandate by directly contacting the head of Colombia's army.

with the currency plan in the face of high inflation. Venezuela currently has the highest rate of inflation in Latin America. An informal *Advisor* poll of Wall Street analysts conducted last month forecasted annual inflation at 21 percent in 2008, double the inflation rate forecasted for Argentina, the next-highest country in the region. Finance Minister Rodrigo Cabezas said Monday the change aims to "recover a bolivar that has significant buying capacity," the Associated Press reported. With new paper money printed and fresh coins minted, the new currency gets its first real commercial test today, since most businesses were closed January 1 due to the New Year's Day holiday. Some analysts have expressed worry that with already high inflation in the country, a new currency could add confusion and even more instability, however. The gap between the official and the "parallel" exchange rate for the US dollar has recently tripled the official rate of 2,150 bolivars, according to some reports.

Annual Predictions Survey*Continued from page 1*

The economic history of developed economies, such as the United States, Australia, Finland, and Sweden demonstrates that natural resource wealth, location, natural beauty and culture are the foundations for sustained growth and industrialization when accompanied by investment in human capital and technology."

A **Guest Comment: Roberto Laserna:** "The increase in prices for raw materials, especially for hydrocarbons, has reinforced rent-seeking trends in countries that produce and export them. We already know that the effects of rent-seeking for economic growth, social equity, and democracy are negative. They are even more so where the institutional system is vulnerable and the rule of law is weak. While the negative impact of rent-seeking in Chile has been moderated or avoided by the creation of stabilization funds, in Venezuela, Bolivia, and Ecuador rent-seeking sustains populist *caudillismo*, stimulates corporate clientelism that worsens economic and social inequalities, and diminishes the competitive capacity of industries. If prices remain high or increase in 2008, it is most probable that these trends will continue and even expand to other countries or regions with abundant natural resources and weak institutional controls, as in fact is already happening in vast regions of Colombia. This means that tensions generated in the region by the Chavez, Morales, and Correa governments could continue, as could the problems of governability they confront within their countries, where the growing expectations created among the most poor have not found a sustainable response of economic growth based on investment and productive jobs."

A **Board Comment: Nicolás Mariscal:** "Population growth is exponential and accompanying such a trend is growing global and regional demand for natural resources. Latin America has great

wealth of these types of resources and enormous potential, but at the same time has big challenges in reversing trends in the utilization of resources and in deforestation. To cite an example, 50 percent of the total tropical areas deforested in the world each year are in Latin America. It is precisely in the management of resources where the greatest opportunity for Latin America lies, first in stopping these trends and second in achieving development. The speed at which we act as a region will be key. There are many opportunities. For example, in the energy sector biofuels production generates development in the region by creating new sources of employment. New technologies are surfacing to produce ethanol more cheaply, such as through cellulose derived from materials like animal fat or garbage. But the above requires substantial investments, and to attract such investments it is necessary to have a legal framework that provides certainty to investors as well as strengthened institutions that keep watch over compliance with rules. I see that in general the region is focused on undertaking large infrastructure projects, which is very positive since, besides creating jobs and sparking development, it is indispensable for undertaking production projects. On the other hand, any resource management initiative should be focused on generating development while at the same time caring for the environment."

Gabriel Marcella is Director of Third World Studies at the US Army War College.

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