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### FEATURED Q&A

#### Is the Mexican Economy on the Road to Recovery?

**Q** Mexican President Felipe Calderon said Nov. 5 that the country's recession ended in the third quarter as Mexico posted 2.7 percent economic growth. He also announced that October marked the fifth consecutive month of job growth. Which sectors of Mexico's economy will be the first to recover from the global financial crisis? Which sectors will lag? What will it take to keep job growth on track?

**A** Rogelio Ramírez de la O, director of Ecanal in Mexico City: "One could only receive with skepticism the remarks that Mexico reached the end of recession, even though gross domestic product figures (not yet officially released) are likely to show an increase close to 2.7 percent in the third quarter over the second. For one thing, national statistics agency INEGI usually measures GDP changes on an annual (and not on a quarterly) basis. In such a way, the third and fourth quarters will carry negative growth, both around -4.5 percent. This is because the fall in the first half was so profound that a modest bounce-up makes no difference. Data on workers enrolled in social security (only a segment of the labor market) show unemployment has risen in recent months. Yet INEGI data on the total labor force (close to 46 million) show a sharp increase in unemployment and underemployment. Considering non-active people 'available' for work, employed workers who work less than 35

hours per week, unemployment and underemployment, the jump was a massive 5 million people in the three quarters through June 2009. Ironically, in the same week the government announced its expectation of GDP growth, consumer confidence fell 6.1 percent to reach its lowest level since the index was created. This was led by a fall in households' capacity to purchase big-ticket items (also at the lowest level) and a drop in consumers' expectations for the economy in 2010. It is understandable that the government wants to

*Continued on page 2*



#### Peru's Garcia and South Korean President Agree to Advance FTA

Peruvian President Alan Garcia (above) on Thursday agreed with South Korean President Lee Myung-bak to conclude free trade talks between the two countries early. See story on page 2.

*File Photo: Peruvian Government.*

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## NEWS BRIEFS

**Colombian Court Deals Setback to Uribe Re-Election Effort**

Colombia's electoral court on Thursday declared invalid millions of signatures supportive of a referendum on whether President Alvaro Uribe should be allowed to seek third term in office, Colombian paper *Semana* reported. The council said funding for the referendum drive exceeded the level allowed under Colombian law. According to *Semana*, the council's decision means there is a "high probability" the country's Constitutional Court will reject a measure approved by legislators to let voters decide on Uribe's second re-election..

**Brazil's Deforestation Sees Biggest Decline in Two Decades**

Deforestation in Brazil's Amazon region for the 12 months ending in July fell at its sharpest rate since the government began monitoring it in 1988, officials said Thursday, the Associated Press reported. In the period, deforestation dropped nearly 46 percent. The government said monitoring and enforcement efforts were responsible for the decline, but Paulo Gustavo of Conservation International said the reason was the drop in global prices for beef and other products.

**Repsol Earnings Fall, But Sees Higher Output in Latin America**

Spanish oil giant **Repsol YPF** saw its net income through September decline by 55.4 percent as compared to the previous year, but said Thursday that new oil and gas discoveries in Brazil and Venezuela would boost production in the coming years. Net income totaled 1.26 billion euros (\$U.S. 1.87 billion) in the first nine months of 2009, down mainly on lower international oil and gas prices, the company said.

**Political News****Deposed Honduran President: U.S. Changed its Position 'Midstream'**

Deposed Honduran President Manuel Zelaya on Thursday accused the U.S. government of backing down in the fight to get him reinstated to the presidency, the Associated Press reported. "The United

facto President Roberto Micheletti signed Oct. 30, sets no date for his reinstatement and leaves the issue to Honduran lawmakers. Honduran congressional leaders have indicated they may not vote before the country's Nov. 29 presidential election and have said they want an opinion from the country's Supreme Court. Last week, then-Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon said the United States would

“The United States weakened in the face of the dictator.”

— Manuel Zelaya

States weakened in the face of the dictator," Zelaya told Honduras' Radio Globo, adding that U.S. officials "changed their position midstream," the AP reported. The United States has called for Zelaya's return to office since the June 28 coup that ousted him. But the accord, which both representatives of Zelaya and de

recognize the election whether or not Zelaya was reinstated. The State Department this week sent Deputy Assistant Secretary of State Craig Kelly to Honduras in an effort to advance the accord, but Kelly left Honduras Wednesday without appearing to bring the two sides closer to a resolution.

**Featured Q&A**

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convey good news on the economy, but it risks further loss in credibility by confusing a modest bounce-up with the end of recession."

**A Gerardo Aranda, associate partner at Gallup Mexico:** "Talking about the end of a recession in Mexico is by far more complicated than what statistics may show. Our recovery will be slow, intermittent and not before 2011. Some sectors of the economy will come back sooner than others, but in direct connection to the recovery in the United States. The real recovery of the Mexican economy will only happen when the majority of the population feels it in their pocket-books. Nevertheless, our unemployment rate in September showed that Mexico has been among the top five countries that most strongly contained unemploy-

ment; 6.1 percent as compared to the United States' 9.8 percent, Spain's 19.3 percent and France's 10 percent, according to the Organization for Economic Co-operation and Development. However, it is also true that most of the jobs saved in Mexico are from small- and medium-sized enterprises (SMEs), most of whose workers are underpaid or disadvantaged when compared to similar positions in other countries. When we think about SMEs, we see companies that are mostly family owned, lacking of financial opportunities and struggling to survive in a war of competitiveness. Only after embracing SMEs as the most single important source of a country's economic development can we talk about the next stages in our economy. I truly recognize the first efforts done by Mexico's economy secretary and some state governments such as in Guanajuato and

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## Economic News

### Peru, South Korea Agree to Early Conclusion of Free Trade Talks

The presidents of Peru and South Korea on Thursday agreed to conclude free trade talks earlier than planned and take other steps to promote economic cooperation, the *Korea Times* reported.



Lee

File Photo: U.S. Government.

During a summit in the Asian country, Peruvian President Alan Garcia and South Korean President Lee Myung-bak said the two countries must work more closely on areas including trade, investment, energy and defense. Garcia

said he would work toward relaxing rules in order to bring more South Korean investment into his country's petrochemicals industry. Lee and Garcia also said they would urge North Korea return to six-party negotiations over its nuclear program. After their meeting in South Korea, Lee and Garcia headed to Singapore for the annual Asia-Pacific Economic Cooperation summit.

## Company News

### Petrobras Employees Approve Potential Strike if Talks Break Down

Workers of Brazil's **Petrobras** have approved a potential strike if pay negotiations with the government-controlled oil company break down, Bloomberg News reported Thursday, citing a union spokeswoman. The union, known as FUP, represents about 40,000 Petrobras workers. The company and union officials are scheduled to meet Monday to discuss the company's contract with employees. Approximately 10,000 Petrobras workers went on strike between Oct. 15 and Oct. 19 demanding a wage increase of 16 percent, plus additional adjustments for inflation. The strike ended after workers and the company resumed negotiations.

## By the Numbers

*A Look at Latin American Data by the Dialogue's Claudio Loser*

### Is the Region Coming Out of the Crisis, and If So, How Well?



WASHINGTON—A year ago, we were struggling with the impact of the worst global financial crisis in recent memory, at least in mine. This year, the world will have registered its first decline in output since the middle of last century. Time and again, economists of all ideologies and technical backgrounds revised their projections downward, not the least in Latin America. This trend seems to have ended, and even though we are far from certain about the speed of recovery, we certainly seem to be improving. This has been the case for a while in China, India, Japan and Europe and now it seems to be the case for the United States.

Rather than speculating about where exactly the region is, I would prefer to provide a forecast of where we will end this year and how next year looks. The bottom line is that the region had its worst overall performance since the early 1980s. Latin America did worse than the rest of the world for most of that decade and during the 1990s, but in recent years the region has been more in sync with global developments. The table below proves that point.

The data in the table is based on the most recent World Economic Outlook, issued by the International Monetary Fund last month. The table shows the region suffering a decline in gross domestic product of 2.5 percent for 2009. This is considerably more than some major Asian countries, but less than the expected decline in the advanced world. Of more interest for the near future, the region's growth is expected to pick up significantly in 2010, in line with world developments, and far ahead of the higher-income countries. This reflects both the fact that the region seems to have been well prepared from a macroeconomic point of view ahead of the crisis, and that it did not have to deal with the problems of the financial system, which are still affecting the U.S. and Europe. Good levels of reserves, strong fiscal positions and some recovery in com-

#### Coming Out of Crisis

GDP Figures and Projections

	2002-2007	2008-2010	Difference	2009	2010
World	4.3	1.7	-2.6	-1.1	3.1
U.S.	2.6	0.0	-2.6	-2.7	1.5
E.U.	2.4	-0.9	-3.3	-4.2	0.5
China	10.7	8.8	-1.9	8.5	9.0
<b>Western Hemisphere</b>	<b>4.1</b>	<b>1.5</b>	<b>-2.6</b>	<b>-2.5</b>	<b>2.9</b>
Argentina	5.5	2.0	-3.5	-2.5	1.5
Brazil	3.7	2.6	-1.1	-0.7	3.5
Chile	4.5	1.8	-2.7	-1.7	4.0
Colombia	5.3	1.6	-3.7	-0.3	2.5
Mexico	3.0	-0.9	-3.9	-7.3	3.3
Peru	6.2	5.7	-0.5	1.5	5.8
Venezuela	5.1	5.1	-4.3	-2.0	-0.4

Source: IMF World Economic Outlook, October 2009; The Economist, November 2009.

modity prices have helped. Still there is considerable uncertainty ahead, as exports of manufactures are weak, remittances are down and tourism arrivals are not yet showing any sign of recovery.

Even in this situation, the region seems to be converging to a rate of growth that is more in line with the rest of the world. It did reasonably well during the boom years,

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**Featured Q&A***Continued from page 2*

Mexico states, which bet on the importance SMEs through programs designed to improve their performance."

**A** **Alejandro Schtulmann, head of research at Emerging Markets Political Risk Analysis in Mexico City:** "Although it is true that recession has reached bottom in Mexico and the country is on the path to recovery, President Calderon's remarks are premature and biased. His statements lack the caution expressed by other political leaders regarding the prospects of economic recovery, notably those of U.S. President Barack Obama. The latter consideration is important, given the history of unfounded optimism and inaccurate predictions coming from Mexico's economic authorities. However, the main point of concern in the president's statements refers to his assertion about job creation. According to the Ministry of Labor, job creation has been on the rise. Yet, the latest statistics from INEGI, show the unemployment rate at 6.41 percent, the highest figure in 13 years. Consequently, the president's statements have been met with widespread skepticism by the country's private sector, academia and financial institutions. As for the discrepancy between the country's still low levels of unemployment in relation to other Latin American economies with higher growth rates, it is important to note that Mexico's concept of unemployment excludes some persons who should be counted as unemployed by OECD standards. If the government

adopted these standards, then the rates would drastically increase. Looking forward, manufacturing and other sectors with a strong correlation to U.S. economic activity would be favored through the recovery in the United States. Although the service sector is also expected to experience a substantial recovery during the

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“Employment will take longer to recover despite sustained economic growth.”

— *Alejandro Schtulmann*

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rest of 2009 and throughout 2010, the question remains about the potential effects that a renewed outbreak of the H1N1 flu virus would have on the tourism industry and related sectors. Finally, employment will take longer to recover despite sustained economic growth, given the structural adjustments following consecutive months of negative growth and the cyclical lag between economic growth and job creation. In the case of Mexico, the longtime structural rigidities affecting the labor market will further hinder such recovery."

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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**By the Numbers***Continued from page 3*

and of course has fared poorly now. However, if we look at the change in average rate of growth in the period 2008-10 as projected, and see the changes relative to the previous six years, Latin America is about in line with others. Even so, among the larger countries, Argentina, Colombia, Mexico and Venezuela are doing much worse. Possibly, in the case of Argentina and Venezuela, this reflects unsustainable policies that have been pursued, while in Mexico it has been the dramatic impact of the U.S. on the local economy. The numbers for Colombia and to some extent Chile are puzzling in light of their policies, and certainly require further analysis. Peru, our stellar performer, and Brazil look very promising, boding well for their future.

*Claudio Loser is a senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere Department at the International Monetary Fund.*