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## FEATURED Q&A

### Can Latin Export-Driven Economies Survive a Chinese Slowdown?

**Q** A decade after its economy was on the brink of collapse and underwent major reforms, Uruguay has become a net creditor of the IMF, Mercopress reported Nov. 14. Meanwhile, JPMorgan has calculated that Chinese growth alone has had as large of an effect, or larger, on South American economies as has growth in the rest of the world combined, the *Financial Times* reported. To what extent is Uruguay's economic success the result of its reform efforts, or have high commodities prices and demand from China been the primary drivers? Will Uruguay and other export-driven economies of South America continue to thrive if the Chinese economy decelerates?

**A** Thomas Andrew O'Keefe, president of Mercosur Consulting Group Ltd. in San Francisco: "Despite laudable efforts undertaken since the severe recession at the start of this century to diversify its export markets, about a third of Uruguay's exports still go to its two larger Mercosur neighbors, Argentina and Brazil. The country's lucrative services sector also depends heavily on demand from neighboring countries. A drop in commodity exports to China would have a big impact on Argentina's economic fortunes, and to a lesser degree, on those in Brazil. Accordingly, Uruguay would be indirectly affected by a significant slowdown in Chinese economic growth because of the direct impact on neighboring economies.

Any negative fallout from an economic downturn in Argentina and Brazil, however, is unlikely to produce anywhere near the severe recession in Uruguay as the one the country experienced a decade ago. For one thing the country's finances and banks are in much better shape and there are enough reserves for the government to provide sufficient stimulus spending to weather any new regional recession. Overall, Uruguay, like Chile, is much better positioned to withstand any deceleration in the Chinese economy than a number of larger South American countries such as Argentina or Peru."

*Continued on page 3*



### Brazil's Labor Minister Becomes Seventh to Step Down

Carlos Lupi became the seventh member of President Dilma Rousseff's cabinet to step down since her inauguration in January. Lupi stands accused of corruption, but has denied wrongdoing. See story on page 2.

*File Photo: Brazilian government.*

## Inside This Issue

<b>FEATURED Q&amp;A: Can Latin Export-Driven Economies Survive a Chinese Slowdown?.....1</b>	<b>Economy Emerges as Top Concern as Leaders Inaugurate New Bloc .....2</b>
<b>Brazil's Lupi Becomes Seventh Cabinet Member to Resign.....2</b>	<b>Humala Declares State of Emergency in Cajamarca .....2</b>
<b>Peru Eyes Trade Accords With Japan, Mexico This Month.....2</b>	<b>Venezuela, Gruma Reach Cooperation Agreement.....2</b>

## NEWS BRIEFS

**Economy Emerges as Top Concern as Leaders Inaugurate New Bloc**

Safeguarding their economies from global economic woes emerged as the chief concern of the region's leaders who met over the weekend in Caracas to inaugurate a new regional bloc that excluded the United States and Canada, the Associated Press reported. At the two day summit of the Community of Latin American and Caribbean States, known by its Spanish acronym CELAC, presidents agreed to give greater support to local industries and also boost trade within the region.

**Humala Declares State of Emergency in Cajamarca**

Peruvian President Ollanta Humala on Sunday declared a state of emergency in the Cajamarca region, where two weeks of protests have jeopardized a \$4.8 billion gold project, Bloomberg News reported. Talks between the government and protesters, who say the project will contaminate the local water supply, have broken down. The state of the emergency gives the armed forces broad powers for 60 days, including the right to make arrests without a warrant.

**Venezuela, Gruma Reach Cooperation Agreement**

Venezuela's government and Mexican corn flour producer **Gruma** have agreed to cooperate in two joint ventures following President Hugo Chávez seizure last month of one of the company's local units, Bloomberg News reported Saturday. The joint ventures will produce corn flour, rice, oatmeal and pasta. Chávez ordered the nationalization of the unit, Molinos Nacionales in May 2010.

**Political News****Brazil's Lupi Becomes Seventh Cabinet Member to Resign**

Brazilian Labor Minister Carlos Lupi on Sunday tendered his resignation to President Dilma Rousseff, becoming the seventh cabinet member to step down since Rousseff took office in January. Including Lupi, six of the government ministers who resigned did so after being accused of corruption, BBC News reported. Lupi came under investigation after Brazilian magazine *Veja* reported last month that he and aides working under him allegedly demanded that some non-governmental organizations and charities give them kickbacks in order to receive ministry funding. Also, Brazilian daily newspaper *Folha de São Paulo* reported that Lupi was under investigation amid allegations that he was at one time receiving a salary for working as a federal congressional employee while at the same time serving in the Rio de Janeiro State

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*Pressure on Lupi to resign intensified last Wednesday after a presidential ethics panel recommended he step down.*

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legislature and receiving a salary for that. Drawing two government salaries is illegal in Brazil. Lupi denies wrongdoing and previously said that he would not resign, saying a month ago, "It would take a bullet to get me out." However, pressure on Lupi to resign intensified last Wednesday after a presidential ethics panel recommended he step down due to gross mismanagement. Rousseff accepted his resignation on Sunday. In a statement posted on his Web site, Lupi said he was being persecuted, CNN reported. "Given the political and personal persecution I have suffered for two months by the media, without proof and without a right of

defense, taking in account the recommendation by the President's Ethics Commission, which also summarily condemned me using a certain newscast and not allowing me the right to defend myself—I decided [to resign] irrevocably,"

**Economic News****Peru Eyes Trade Accords With Japan, Mexico This Month**

Peru's government is expecting lawmakers in Japan and Mexico to approve free-trade agreements with the South American country this month, Foreign Trade Minister José Silva told Bloomberg News. In an interview, Silva also said he expects to sign an agreement with the Trans-Pacific Partnership, or TPP, a nine-nation grouping, the news service reported Friday. Already, Peru has trade agreements with countries including the United States and China as well as with the European Union.



File Photo: Agencia Andina.

Peru is also considering a similar accord with India, said Silva. "Agreements cover 94 percent of our trade so we aim to become Asia's gateway to South America," Silva told Bloomberg. The agreements with Japan and Mexico would provide a boost to Peru's exports of textiles and agricultural goods, Silva added. The country is seeking to increase exports of cotton clothing, asparagus and coffee in order to counter drooping prices for metals. On the London Metal Exchange, the price of copper has fallen 18 percent this year while zinc has dropped 16 percent. Peru's level of exports is expected to increase for a third year next year as producers of copper and zinc, such as **Southern Copper Corp.**, boost production, said Silva. "Export volumes will rise because several mining projects will start producing, so we have no reason to be pessimistic," he added. Silva said Peru's exports are likely to increase 14 percent to \$49 billion in 2012.

**Featured Q&A***Continued from page 1*

**A Sun Hongbo, associate professor at the Institute of Latin American Studies of the Chinese Academy of Social Sciences in Beijing:** "South America now is on the way of jumping out of the historical debt trap. The spillover effect of China's sustainable growth has been only one favorable external factor for the new round of development in this region. More important, the past reform efforts made by some countries to establish a sound macroeconomic regulation framework with prudent fiscal and flexible monetary policies have functioned well, so that they have been capable of adopting countercyclical policy tools against the global financial crisis. Undoubtedly, China's strong demand for primary commodities improved the terms of trade of South American resource-exporting countries. For example, Brazil, Argentina and Chile have enjoyed great trade surplus with China, amounting to more than \$115 billion from 2001 to 2010. In the case of Uruguay, its trade with China has been in deficit in recent years, but it is not large. The fluctuation of China's growth rate resulting from the development model transformation that is underway does not necessarily mean a negative impact for the South American economy. China's opportunity for South America has gone gradually beyond trade, extending to areas including investment, infrastructure and technical cooperation. By the end of March 2011, China's development bank signed credit deals worth more than \$59 billion with 13 Latin American countries, bank President Chen Yuan, said in an interview with *People's Daily*. It has already released \$38.3 billion and 20 billion renminbi in loans on nearly 60 projects. In case of Cuba, Uruguay and Chile, it reached \$750 million. In other words, beyond trade, China can play a capital provider role as an external financial stabilizer for South America in the next few years."

**A David Mann, regional head of research, Americas at Standard Chartered:** "Uruguay's economic success is a combination of both the reform efforts and the rises in commodity prices. The prospects remain bright as macro imbalances in Uruguay are limited and we expect commodities to remain supported by demand from other emerging markets, particularly China and further out even from India. Uruguay also has a strong regulatory regime and a solid banking sector. FDI rather than portfolio inflows are much more healthy from a financial flows vulnerability point of view as FDI is longer term in nature and therefore less fickle. If there is a bigger deceleration in China than expected and com-

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“Uruguay also has a strong regulatory regime and a solid banking sector.”

— *David Mann*

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modities decline as world growth disappoints this is a risk factor to be wary of. However we believe this would be a temporary issue. China still has substantial firepower to combat a downturn and the rising need for resources amid the global super cycle, driven by emerging markets, is likely to continue despite the challenges posed by the crisis in Europe. Only in the more extreme worst case scenarios in Europe would we become more worried about taking this view. Eventually the growth in China's seemingly insatiable demand will slow but this is still a long way off."

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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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