

The New York Times

Thursday, July 1, 2010

Economies in Latin America Surge Forward

By Simon Romero

LIMA, Peru — While the United States and Europe fret over huge deficits and threats to a fragile recovery, this region has a surprise in store. Latin America, beset in the past by debt defaults, currency devaluations and the need for bailouts from rich countries, is experiencing robust economic growth that is the envy of its northern counterparts.



Eliseo Fernandez/Reuters

Copper awaiting delivery in Valparaíso, Chile. Latin America has benefited from strong Asian demand for commodities.

Strong demand in Asia for commodities like iron ore, tin and gold, combined with policies in several Latin American economies that help control deficits and keep inflation low, are encouraging investment and fueling much of the growth. The World Bank forecasts that the region's economy will grow 4.5 percent this year.

Recent growth spurts around Latin America have surpassed the expectations of many governments themselves. Brazil, the region's rising power, is leading the regional recovery from the downturn of 2009, growing 9 percent in the first quarter from the same period last year. Brazil's central bank said Wednesday that growth for 2010 could reach 7.3 percent, the nation's fastest expansion in 24 years.

After a sharp contraction last year, Mexico's economy grew 4.3 percent in the first quarter and may reach 5 percent this year, the Mexican government has said, possibly outpacing the economy in the United States.

Smaller countries are also growing fast. Here in Peru, where memories are still raw of an economy in tatters from hyperinflation and a brutal, two-decade war against Maoist rebels that left almost 70,000 people dead, gross domestic product surged 9.3 percent in April from the same month of last year.

“We’re witnessing what are probably the best economic conditions in Peru in my lifetime,” said Mario Zamora, 70, who owns six pharmacies in Los Olivos, a bustling working-class district of northern Lima where thousands of poor migrants from Peru’s highlands have settled.

Vibrancy mixes with grit around his pharmacies. A Domino’s Pizza vies for customers with Peruvian-Chinese restaurants called chifas. Motorcycle taxis deliver passengers to nightclubs. Competition, in the form of a newly arrived Chilean pharmacy chain, looms around the corner from his main store.

Los Olivos offers a glimpse into the growth lifting parts of Latin America out of poverty, but big exceptions persist. In Venezuela, electricity shortages and fears of expropriations caused gross domestic product to shrink 5.8 percent in the first quarter.

But Venezuela, and to a lesser extent Ecuador, another oil-dependent country that lags behind its neighbors in growth, seem to be exceptions to a broader trend.

Even small countries ideologically aligned with Venezuela have adopted pragmatic policies and are faring well. While Europe was gripped by fears of contagion from Greece’s debt crisis, the credit rating agency Standard & Poor’s upgraded Bolivia in May, citing its sound public finances.

Latin America’s growth largely reflects a deepening engagement with Asia, where China and other countries are also growing fast. China surpassed the United States last year as Brazil’s top trading partner, and is the second largest trading partner in countries like Venezuela and Colombia, Washington’s top ally in the region.

Some scholars of Latin America’s economic history of ups and downs say the robust recovery may be too good to last, pointing to volatile politics in some places, excessive reliance on commodity exports and the risks of sharply increasing trade with China.

Michael Pettis, a specialist at Peking University in Beijing on China’s financial links with developing countries, said the region was especially exposed to Chinese policies that had driven up global demand for commodities, including what appears to be Chinese stockpiling of commodities.

“Within China there is a ferocious debate over the sustainability of this investment-driven growth,” Mr. Pettis said. “I’m worried that too few policy makers in Latin America are aware of the debate and of the vulnerability this creates in Latin America.”

Other economists, including Nicolás Eyzaguirre, director of the Western Hemisphere department of the International Monetary Fund, suggest that low international interest rates, another factor supporting Latin America’s growth, will not last much longer. Even so, they applaud home-grown policies that are supporting growth.

Chile, for instance, saved revenues from copper exports when commodities prices climbed, allowing it to enact a stimulus plan last year and rebound from the February earthquake. Chile's economy grew 8.2 percent in April from the previous month, its biggest increase since 1996.

"This time around, the positive shock is probably even better, since some countries saved at least part of their windfall from the good years," Mr. Eyzaguirre said.

Within the fund itself, Latin America's recovery is translating into new political sway, particularly for Brazil, which has paid its debt to the fund and is seeking to enhance its voting stake in it. As Brazil posts China-level growth, President Luiz Inácio Lula da Silva is nurturing soft-power ambitions, with ventures like a state television station that will broadcast to African nations.

David Rothkopf, a former Commerce Department official in the Clinton administration, pointed to the dozens of embassies and consulates that Mr. da Silva has opened around the world.

"Like other Latin American countries, Brazil needs to improve its infrastructure and train more engineers," Mr. Rothkopf said, "but it embodies the rise of emerging powers, one of the great themes of this century."

Peru, whose economic growth is expected to rival or outstrip Brazil's over the next several years, exemplifies the challenges remaining in a sizzling economy.

The country boasts nimble companies like Ajegroup, founded during the chaos of the 1980s. Now the company's soft drinks compete with giants like Coca-Cola, not just in Peru but in other Latin American countries as well.

Foreign investment has flowed into Peru, largely in mining. But this investment reveals both weaknesses and strengths. Mining accounts for about 8 percent of economic activity, but about half of tax revenues, creating problems if commodities prices fall, said Pedro Pablo Kuczynski, a former finance minister here.

Deep inequalities also persist, especially between the capital, Lima, and the Andean highlands and the forests of the Amazon basin, where factions of the Shining Path guerrilla group feed off the cocaine trade. As much as 70 percent of the labor force still works outside the tax system, depriving workers of benefits and the government of revenue.

But some of what glitters in Peru's boom seems to be paving the way for lasting prosperity. Felipe Castillo, 60, mayor of Los Olivos, is investing tax proceeds in a new low-tuition municipal university for 4,000 students. He gazed recently at the 11-story

structure, in a slum that has begun to take on the trappings of a lower-middle-class district.

“Maybe the students at this institution will look at the mistakes of our economic policy in the past as the tragic features of a bygone era,” Mr. Castillo said.

Andrea Zárate contributed reporting from Lima.