"Next century, Latin America could become the next 'Asia' of the world as many of the countries of South and Central America overhaul their economies and become more international in their trade and political dealings."[1]

CHAPTER TWO

LATIN AMERICA - A REGION TRANSFORMED?

2.1 The overwhelming message the Committee received during the inquiry was that the Latin America of the 1990s is a vastly different region from the Latin America of the previous decade.

2.2 For Latin America, the 1980s has often been described as a "lost decade." While the magnitude of the problems varied from country to country, the following summary by the President of the OECD Development Centre, Mr Louis Emmerij, and the President of the Inter-American Development Bank, Mr Enrique Iglesias, is particularly apt. To them, the label "lost decade" was justified by the following features:

- the decade was a time of severe economic recession in which economic growth stood at a low 1.3%;
- accompanying the region's drop in production, real per capita income shrank by more than 20% between 1980 and 1989, and the average per capita income at the close of the decade was at the 1978 level;
- in parallel with the contraction of Latin America's economies, capital formation fell, both for production infrastructure and for the social sectors. On average, the investment rate fell to 19% of GNP in the period 1983-89, compared to 28% in the latter half of the 1970s; and
- widening inflationary imbalances contributed to Latin America's dire economic situation. The disruptive effects of increases in domestic and external debt service further accentuated fiscal deficits.[2]

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1 Mr G. McKanna, submission, p. 1.

2 Louis Emmerij and Enrique Iglesias, 'Latin America at the Crossroads', *Restoring Financial Flows to Latin America*, Development Centre of the Organisation for Economic Cooperation and Development and the Inter-American Bank, 1991, p. 12.

2.3 The Committee was interested to discover that the difficulties Latin America experienced in the 1980s were apparently atypical. A historical perspective was provided by Mr Emmerij and Mr Iglesias, who pointed out that for much of the 20th century, Latin America has had the highest rate of economic growth (3.8%) compared with the OECD (3%) and Asia (3.2%). In addition, until 1982, Latin America had four decades of virtually uninterrupted growth.[3]

Latin America Today

2.4 The changes in the 1990s that have been cited by witnesses include implementation of political and economic reforms, reduced levels of debt, lower inflation rates and dismantling of trade barriers. The Committee sought to establish a clearer picture of where changes have occurred, how extensive they are and how much they add to the attractiveness of Latin America as a region with which Australian companies could pursue economic and commercial ties.

2.5 Both DFAT and Austrade acknowledged that profound changes have taken place. DFAT set the tone of its submission in stating that "Changes of historical importance are sweeping Latin America" and describing the changes which have occurred in the past five years as "extraordinary."[4]

2.6 Austrade considered that, whereas in the 1970s and 1980s nearly all of the Latin American countries experienced considerable economic difficulties, "the decade of the nineties is witnessing a sea change in the thinking of Governments in the region."[5]

2.7 A good idea may be formed of how wide-ranging the reforms have been when one considers that:

- in a little over a decade (1979-1991), at least a dozen Latin American countries replaced military dictatorships or regimes dominated by the military with elected governments;[6]

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3 ibid., pp. 12-3.

4 DFAT, submission, Committee Hansard, p. 13.

5 Austrade, submission, Committee Hansard, p. 311.

6 According to one US author there were 13 countries: Ecuador (1979), Peru (1980), Honduras (1981), Bolivia (1982), Argentina (1983), Uruguay (1984), El Salvador (1984), Guatemala (1985), Brazil (1985), Paraguay (1989), Panama (1989), Chile (1990) and Nicaragua (1990). Paul W. Zagorski, *Democracy vs National Security: Civil-Military Relations in Latin America*, Colorado, 1992. The Committee disagrees with respect to Nicaragua and believes that the former Sandinista regime did not easily fit either of the categories.

- in the 1980s the economies of the region were characterised by import substitution, high tariff barriers, hyper-inflation and massive external debt. Today, the predominant features are privatisation, liberalisation and re-structuring.[7]

2.8 The Committee sought further details regarding the performance of the Latin American economies in the past year. The most recent surveys are those by the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) and the International Monetary Fund (IMF). The following is a summary of ECLAC's and the IMF's most recent publications:[8]

- In 1991, the Gross Domestic Product (GDP) of Latin America and the Caribbean as a whole grew by 3% and per capita output registered its first improvement in four years.

- At the same time, inflation receded and hyper-inflation was virtually eliminated.

- Latin America and the Caribbean registered a positive transfer of financial resources for the first time in 10 years.

- In 1991 there was a significant increase in the number of Latin American countries which achieved higher growth rates. There also was an increase in the number of countries which attained, or were in the course of attaining macro economic stability. Growth depended on the stage they had reached in their stabilisation programs. In some cases, the expansion process forged ahead after stabilising adjustments (Chile and Mexico), in others the rate of expansion slackened as a result of adjustments implemented (Colombia, Costa Rica, Guatemala and Paraguay) and in still others, output recovered as the economy emerged from a state of high inflation (Argentina).

- A large number of Latin American countries grew at between 3% and 5% per year, which was equal to or higher than those registered in 1990. This was either because they continued an expansion already underway (El Salvador, Guatemala, Mexico, Panama and Paraguay), had embarked on a phase of reactivation (Bolivia, Chile and Ecuador), or because the level of activity had recovered as the country emerged from high inflation (Argentina). The Uruguay economy recovered by 2% after three years of virtual stagnation. Peru registered a similar degree of reactivation despite the present recession because of the disinflation achieved during the year. Venezuela's economy grew by almost 9%, substantially exceeding the already high rate achieved in 1990. In contrast, Colombia and Costa Rica grew between 1% and 2%. Brazil, whose economy has been plagued by recession and high inflation registered

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7 DFAT, submission, Committee Hansard, p. 13.

8 *Preliminary Overview of the Latin American and Caribbean Economy 1991*, No. 519/520 December 1991, ECLAC, Santiago, 1991; and *World Economic Outlook October 1991*, International Monetary Fund, Washington DC, 1991.

an increase of nearly 1%. Honduras and Nicaragua continued to register high inflation and low levels of economic activity.[9]

- Per capita output registered modest growth in many of the economies of the region, although there was stagnation or regression in some of the countries. Bolivia, Colombia, Ecuador, El Salvador, Mexico and Uruguay registered per capita growth rates of between 1% and 2%, while in Argentina, Chile, Panama and Venezuela per capita output rose by 3% or more.

- Stabilisation policies have in most cases managed to reduce inflationary pressures.

- In spite of the fragility still displayed by some of the stabilisation processes, the majority of the economies of the region in 1991 were functioning on a new foundation. This was characterised by trade liberalisation, austerity in fiscal matters, firmer orientation towards exports, more prudent management of monetary policy, and greater reluctance to resort to public regulation of economic activity.

- The economies of the region were operating with more balanced public sectors during the year.

- In 1991, despite a decline or stagnation in the value of exports in many cases, there was a significant increase in the import capacity of most of the countries of the region, because of a reduction in net payments of profits and interest and increased inflow of capital.

- The IMF's projection is for above - average growth for Argentina, Bolivia, Chile, Colombia, Costa Rica, Mexico, Paraguay and Venezuela in 1992.

2.9 Bolivia, Colombia, Chile, El Salvador, Mexico and Paraguay were assessed by the IMF to have managed overall macroeconomic policies prudently. Argentina, Bolivia, Chile, Colombia, El Salvador, Mexico, Paraguay, Uruguay and Venezuela were considered to be making progress in privatisation programs, financial sector reform and elimination of restrictions on foreign investment.

2.10 The Committee is aware that optimism over the changes in Latin America must be tempered somewhat. ECLAC, Departmental representatives and a number of other witnesses cautioned that:

- the pace of economic reform is not even throughout the region. Brazil has a high rate of inflation and continues to be in recession. Several countries, notably Peru, Honduras and Nicaragua also remain in a state of recession or

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9 In the case of Nicaragua, the Committee believes that the trade embargo and financial blockade imposed by the United States in th 1980s would have contributed to its economic difficulties.

depressed economic activity.[10] Although a number of Latin American countries grew at between 3% and 5% in 1991, others such as Colombia and Costa Rica only grew at between 1% and 2%. Further, there was stagnation or negative growth in the per capita output of 12 of the countries;

- although debt stabilisation programs have alleviated the region's most pressing debt problems, servicing of interest on public foreign debt continues to place a heavy burden on national budgets;

- a significant number of countries continue to have high to moderate rates of inflation. This includes Brazil, Argentina, Peru, Uruguay, Colombia, Bolivia, Costa Rica, Ecuador and Venezuela. ECLAC observed, however, that the rates of inflation in most of these countries decreased in the second half of the year. In contrast, there was a surge of inflation in Brazil, where rates reached more than 20% per month in some months of 1991; and

- there are elements of fragility in some Latin America countries due to long-standing social problems, exacerbated in many cases by the disruptions caused by economic reforms. Income distribution is a widespread problem.

2.11 The Committee recognises that some doubts exist regarding the durability of political reforms in some Latin American countries. The attempted coup in Venezuela in February 1992 was reportedly due to unhappiness by the military with the effects of austerity measures imposed by President Perez since February 1989. The fact that the coup attempt has taken place in Venezuela is in itself significant as the Venezuelan political system had been regarded as "one of the most stable and democratic in Latin America". In its submission (prepared some months before the 1992 coup), DFAT had assessed that the Venezuelan political scene had "returned to stability" following the riots of February 1989.[11] It should be remembered that the earlier riots also had their roots in economic grievances. At time of reporting, the Committee is also aware of the political upheaval in Peru and the fragility of the reform process in that country.

2.12 However, it would be fair to say that the reforms that have taken place in most of the Latin America countries in the last few years have succeeded in transforming a few of the republics into commercially significant economies and increased the economic attractiveness of several others.

2.13 In its annual report for 1990, the Inter-American Development Bank (IDB) acknowledged that there are reasons to be concerned about Latin America in the short term, as a result of "short-run costs associated with stabilisation and structural adjustment policies."[12] However, there are reasons for hope in the medium and long term. The IDB's assessment generally is that:

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10 See footnote 9 for comment on Nicaragua.

11 DFAT, submission, Committee Hansard, p. 59.

12 *Inter-American Development Bank, Annual Report 1990*, Washington DC, p. 1.

"... the outlook for the decade is positive provided that the governments maintain their resolve to reform the public sector, restructure the productive sector, and search for innovative and efficient ways to position their countries within the international economic framework.[13]

2.14 Immediately prior to finalising this Report the Committee had the privilege of meeting with Professor Roberto Russell, Professor of Latin American Foreign Policy at the University of Buenos Aires. Professor Russell confirmed the Committee's impression that the present reform process in the Latin American countries is more likely to continue than to be halted or reversed, despite possible short term setbacks.

2.15 In a recent paper presented in Dunedin, Professor Russell outlined the reasons for his optimism:

- the changes in Latin America are part of a trend of change in the global production process, in the structure of states and authority and in the structure of the world order. These changes have been reinforced by the collapse of totalitarian regimes worldwide;

- specific changes in Latin America complement the worldwide changes. In particular Latin Americans are increasingly rejecting autocratic governments and highly regulated economies in favour of economic liberalisation and free market forces; and

- increasingly, international organisations and non-government organisations have been active in promoting liberal democracy.[14]

The Foreign Debt Situation

2.16 The Committee did not study the debt situation of the region or of individual Latin American countries in depth as it was not specifically included in the terms of reference of this particular inquiry. Moreover it is a subject that would constitute a major investigation in its own right. However the external debt situation was examined in so far as it would enable the Committee to determine what impact it is likely to have on the economic progress of the region. In this respect, the Committee was pleased to note that the region has on the whole received a favourable preliminary review from the United Nations.

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13 ibid.

14 Professor Roberto Russell, *Changes in Latin America: External and Domestic Impacts*, address to the Foreign Policy School, University of Otago, Dunedin, New Zealand, May 1992.

2.17 The following is a summary by ECLAC of the foreign debt of Latin American countries in 1991. The main points to note are:

- at the end of 1991, Latin American foreign debt was US$426 billion, about the same as 1990. This means that there was no significant growth in debt in 1991;

- the debt of five Latin American countries declined in 1991, mainly due to cancellation by the US Government of important amounts of concessional official bilateral debt owed to it. The countries were Guyana, Honduras, Nicaragua, Bolivia and Chile;

- there was a decline in the debt of a few other countries. Chile's debt declined by 8% due to net amortisation of public obligations, Uruguay's debt declined by 3% as a result of the effects of its 1990 accord with the banks; and Argentina's debt declined by 6% due to the privatisation of the national telephone company and airline;

- the Brazilian debt situation did not change significantly in 1991; and

- the debt of a number of countries grew in 1991, namely Mexico, Guatemala, Peru, Panama, Paraguay and Ecuador. In the case of Mexico, whose debt grew by 3%, the growth reflected the further consolidation of Mexico's access to international bond markets, with its activity in the bond markets notable for the steady improvement of credit terms. In the case of the other countries, ECLAC reported that, on the positive side, progress was made in regularising debt payments.[15]

2.18 While on the whole Latin America's debt burden has improved significantly over the last few years, the debt burden is still, for many of the countries, a real one. On the downward side, the Committee notes the following points:

- serious debt problems persist in most of the countries in the region;

- Guatemala, Costa Rica and Paraguay still have difficulties servicing their foreign debt. Debt servicing weighs heavily on the national budgets of many other Latin American countries;

- the region's debt as a percentage of exports has remained very high over the last three years. Six countries improved their debt/export ratio in 1991, namely Colombia, Venezuela, Chile, Paraguay, Guatemala and Costa Rica. ECLAC describes the ratio as "extraordinarily high" for Nicaragua, Argentina and Peru; and "at very uncomfortable levels" for Bolivia, Ecuador, Honduras and Uruguay; and

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[15] *Preliminary Overview*, op. cit., p. 19.

- the size of the debt and debt servicing are now the primary burdens for many Latin American countries, reflecting the steep rise in public debt in the 1980s. On average, Latin American governments are responsible for 80% or more of the countries' foreign debt.[16]

2.19 Debt restructuring packages have been instituted by most Latin American countries along the following lines:

- official debt forgiveness, including re-scheduling through the concessional options provided by the Paris Club;

- officially supported debt and debt-service reduction agreements with commercial banks; and

- market-based debt conversion programs, including debt-equity conversion or debt-equity "swaps".

2.20 The efforts of several Latin American countries have been cited favourably by the IMF, notably Chile, Mexico and Argentina[17] and by ECLAC, particularly Chile, Mexico, Venezuela and Costa Rica.

2.21 In conclusion, the Committee recognises that a heavy debt burden can serve as a disincentive to investment. However, the debt situation in Latin America, although still serious, should not, in the Committee's view, be regarded as a disincentive to the exploration and pursuit of opportunities in the region as a whole. In the case of a few countries, notably Chile and Mexico, where debt reduction measures have been accompanied by changes in domestic policies, there has been considerable improvement in the domestic economies. The IMF notes signs that some Latin American countries are on their way to regaining international creditworthiness and cites Chile, Mexico and Venezuela in particular in this respect.[18]

Inflation

2.22 In 1990 Latin America was still battling rampant inflation, with mixed results. The United Nations reported that control of inflation remained the dominant policy objective in Latin America in 1990.[19] In 1991 however, ECLAC was able to report a "notable

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16 By comparison, the debt of Federal and State Governments, and their public enterprises, comprised 44% of Australia's foreign debt in 1991. 56% was private sector debt.

17 *World Economic Outlook*, op. cit., pp. 69-70.

18 ibid., p. 73.

19 *World Economic Survey 1991*, United Nations, 1991, p. 30.

slowdown" in inflation.[20] The average rise in prices for the region fell from 1200% in 1989 and 1990, to nearly 200% in 1991. Commented ECLAC:

> "Although still high, the extent of improvement and the downward trend observed throughout the year are promising signs."[21]

2.23 ECLAC reported that in 15 of the countries in Latin America and the Caribbean, inflation showed a vast improvement at the end of 1991 compared to the beginning of the year. Even in those countries whose rates of inflation are considered "chronic", including countries with hyper-inflation, radical economic measures had managed to bring the rates down as follows:

	1990	**1991**
	(Price Inflation expressed as % per annum)	
Argentina	1350	90
Brazil	1600	465
Nicaragua	13500	1180
Peru	7650	185
Uruguay	130	85

2.24 In countries with "moderate" levels of inflation, there were varying degrees of improvement:

	1990	**1991**
	(Price Inflation expressed as % per annum)	
Chile	27	18
Paraguay	44	14
El Salvador	19	14
Colombia	32	29
Bolivia	18	16
Honduras	36	33
Costa Rica	27	27

Panama's very low inflation of 3% was atypical.

2.25 With regard to inflation, it is the Committee's view that it would no longer be accurate to characterise the region as being plagued by rampant or runaway inflation although the situation continues to be of concern in some countries. Even in those

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20 *Preliminary Overview*, op. cit., p. 8.

21 ibid.

countries serious attempts have been made, and measures implemented, to control the inflation rate. In other countries, inflation is no longer at the level of severity it was in the 1980s. On balance, therefore, the Committee is cautiously optimistic regarding the level of inflation in Latin America and its impact on the economies of the countries in the region. It is nonetheless a factor that Australian business should not ignore when assessing the advantages and disadvantages of investing in the region.

Country Snapshots

2.26 The following summary of the main changes in individual Latin American countries is based primarily on ECLAC's *Preliminary Overview of the Latin American and Caribbean Economy 1991*, the IMF's *World Economic Outlook October 1991*, and on submissions made to the Committee, most notably from DFAT and Austrade. The countries are dealt with in alphabetical order for ease of reference.

Argentina

2.27 Australian exports to Argentina grew by 27.3% between 1986-90 putting Argentina into the category of a "fast growth" market where Australia is concerned.[22] In 1990-91 Argentina was Australia's second largest trading partner in Latin America, with a total two-way trade of A$196 million. Of this, A$126 million represented earnings from Australian export of coal, machinery and transport equipment.

2.28 By all accounts Argentina is emerging from its serious economic problems of the past few decades and in the past two years has made significant progress in structural and economic reforms. Since taking office in July 1989, measures taken by President Menem to overhaul the economy have included:

- removal of price controls;
- floating of the exchange rate;
- reorganisation and privatisation of state organisations; and
- liberalisation of foreign investment and imports.[23]

2.29 Both ECLAC and the IMF have commented favourably on Argentina's economic performance in 1991. ECLAC noted that Argentina's GDP increased by 4.5% in 1991 within a context of tremendous changes in the economy. Per capita output in 1991 rose for the first time in four years, purchases of equipment and construction revived;

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22 *Australian Trade and Investment Development*, DFAT, 15 November 1991, p. 222. A "fast growth" market is one where the growth is 12% or more.

23 DFAT, submission, Committee Hansard, p. 19.

there was a general increase in the demand for capital goods, and the rate of unemployment on average fell from 7.4% in 1990, to 6.5% in 1991.[24]

2.30 The IMF has recognised that Argentina registered above-average growth in 1991, and the most recent structural reform program introduced in April 1991 has produced positive results. During the year inflation and the primary government deficit declined, economic activity started to recover, there were further moves towards privatisation of public enterprises, and foreign reserves stabilised.[25]

2.31 The Committee agrees with DFAT[26], that some degree of caution is warranted as vested interests in Argentina continue to advocate retention of the traditional economic system, including the inefficient state enterprises. However, on balance, the opportunities opening up for Australian investment in Argentina should be seriously evaluated. Austrade informed the Committee that in March 1991 the Argentine Government had invited Australian mining interests to survey the prospects for the Argentine mining sector and prepare a blueprint for its development. However, the reaction of the Australian mining industry was one of caution.[27]

Belize

2.32 DFAT describes the bilateral relationship with Belize as "insubstantial, although cordial".[28] There is little trade between Australia and Belize, whose economy is based primarily on export of citrus concentrate and bananas. In 1990-91, Australia exported A$7,000 worth of telecommunication equipment and parts to Belize and imported A$3000 worth of crustaceans and molluscs. Out of Australia's 22 trading partners in the region, Belize ranked 21st in 1990-91.

2.33 Belize is expected to retain its stable political environment and to make steady economic progress in the 1990s.[29] Given its size (population: 190,000) and economic make-up, prospects for investment and joint economic ventures between Australia and Belize appear more limited than with other Latin American states.

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24 *Preliminary Overview*, op. cit., p. 5.

25 *World Economic Outlook*, op. cit., p. 23.

26 DFAT, submission, Committee Hansard, p. 20.

27 Austrade, submission, Committee Hansard, p. 1194.

28 DFAT, submission, Committee Hansard, p. 78.

29 ibid., p. 23.

Bolivia

2.34 DFAT describes Bolivia as South America's poorest country, with a per capita GDP of US$570 in 1987.[30] In 1989, Bolivia's per capita GNP was US$620 which made it the third poorest country in Latin America and the Caribbean (after Guyana and Haiti).[31]

2.35 Relations between Australia and Bolivia are "slight" and the trade relationship "minimal".[32] There is little trade between Australia and Bolivia, which ranked as Australia's 15th trading partner in Latin America in 1990-91 with a total trade of A$750,000.

2.36 The Committee would not dismiss Bolivia in terms of investment or economic ventures. It notes that Bolivia is one of the countries praised by the IMF for its economic management.[33] ECLAC noted that Bolivia's GDP grew substantially in 1991, and per capita output increased by 1%, the largest increase since 1979. A strong upturn in investment was seen, with the bulk of investment channelled into public sector transport projects, and mining and agribusiness projects. Some of the investments were facilitated by favourable new investment laws passed in 1990.[34]

Brazil

2.37 Democracy, a form of government that has a long history in Brazil, re-emerged in 1985, following a 21 year interlude of military rule. A new constitution providing for a democratically elected President and Government was passed in October 1988.

2.38 The economic reform process started by President Collor in March 1990 continued in 1991, although not without problems. ECLAC described the Brazilian economy in 1991 as "flat" following the severe recession in 1990. The level of activity on average grew by a little under 1%.[35]

2.39 However, President Collor's reforms have shifted Brazil away from its previous policy of protection and import substitution. Brazil remains a major industrial producer and has one of the highest per capita GNPs in Latin America (US$2,540 in 1989).[36]

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30 ibid., p. 24.

31 *World Tables 1991*, The World Bank, Washington DC, May 1991, p. 5.

32 DFAT submission, Committee Hansard, p. 79.

33 *World Economic Outlook*, op. cit., p. 23.

34 *Preliminary Overview*, op. cit., p. 6.

35 ibid.

36 *World Tables*, op. cit., p. 5.

As the General Manager of Banco Santander observed, despite its present economic problems, Brazil remains Latin America's biggest industrial power and exporter, with a GNP double that of South Korea. In particular Banco Santander saw opportunities arising from President Collor's plans for privatising and upgrading Brazil's steel industry.

2.40 Brazil is presently Australia's largest trading partner in Latin America with a two-way trade in 1990-91 of A$445 million. However in growth terms, Brazil as an export destination, registered negative growth of -1.1% between 1986-90.[37] Australia has a trade deficit with Brazil of A$187 million. By far the biggest component of Australia's exports comprise coal, coke and briquettes (A$104 million) while imports from Brazil cover a wider range of goods, such as iron ore, paper products, coffee and animal and vegetable oils. More details on trade with Brazil may be found in Chapter 3.

Chile

2.41 Chile has been described to the Committee as "the jewel in the crown",[38] and as "the premier market of Latin America".[39]

2.42 DFAT describes Australian investment in Chile as "the pivot of the economic relationship".[40] Similarly Chile's Ambassador to Australia described it as "the most outstanding feature of Australian-Chilean relations."[41] Australia is presently the third largest investor in Chile.

2.43 Both ECLAC and the IMF have commented favourably on Chile's economic development. ECLAC notes that the Chilean economy recorded a 5% increase in 1991, marking eight years of uninterrupted economic growth. Per capita output in 1991 is up 16% compared to 1980.[42]

2.44 The IMF praises Chile's adherence to "sound policies and structural reforms" and notes that Chile has reduced its total debt to banks by over half in the past four years through market-based debt conversion.[43]

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37 *Australian Trade and Investment Development*, op. cit., p. 223.

38 Mr M. Babidge, submission, p. 4.

39 Mr J. Blanco, submission, p. 10.

40 DFAT submission, Committee Hansard, p. 84.

41 H.E. Mr J. Salazar, Committee Hansard, p. 1340.

42 *Preliminary Overview*, op. cit., p. 5.

43 *World Economic Outlook*, op. cit., p. 23.

2.45 The most important Australian export to Chile has been coal (A$36 million in 1990-91 out of a total export of A$52 million). Australia imports a wider range of goods from Chile. The total bilateral trade in 1990-91 was A$91.3 million, making Chile Australia's fourth largest trading partner in Latin America. Between 1986-90, Australia's export trade with Chile grew by 20.8%.[44]

Colombia

2.46 Colombia is one of the countries commended by the IMF for above-average growth and prudent macroeconomic policies,[45] although in 1991 the Colombian economy did not perform quite as well as some other Latin America countries, registering growth of 2%.[46]

2.47 However, Colombia remains one of the more economically stable countries in Latin America. As the previous Colombian Ambassador pointed out in his submission:

> "Colombia is alone among Latin America countries in achieving uninterrupted economic growth throughout the 1980s. It has not experienced a single year of negative growth since national income statistics began to be recorded in 1948. G.D.P. growth in 1990 was 3.8% ...
>
> Colombia has kept inflation in check at a comparatively low average of less than 25% p.a. (1984-1990)."[47]

2.48 The present Ambassador of Colombia, His Excellency Mr Fernando Navas de Brigard, stressed Colombia's political stability. The Ambassador made the point that Colombia is not so much a country in transition to democracy as one "deepening the already strong democratic structure and tradition."[48] The 1991 Constitution reflects this development.

2.49 Australia's total trade in Colombia in 1990-91 amounted to A$12.4 million. Colombia ranks as Australia's 8th largest trading partner in Latin America. The single most important item of export in 1990-91 was barley, followed at some distance by wool. Barley was also the most important export to Colombia in 1989-90. Australia imports considerably more from Colombia than it exports and in 1990-91 had a trade deficit with Colombia of A$3.9 million.

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44 *Australian Trade and Investment Development*, op. cit., p. 224.

45 *World Economic Outlook*, op. cit., p. 23.

46 *Preliminary Overview*, op. cit., p. 6.

47 Dr A. Puerto, submission, pp. 6-7.

48 H.E. Mr Fernando Navas de Brigard, Committee Hansard, p. 1766.

Costa Rica

2.50 DFAT describes Costa Rica's economy as being in a "relatively healthy state".[49] Its forecast for Costa Rica for the next five to ten years is for political stability "matched by steady if unspectacular, economic growth".[50]

2.51 The Committee noted the slowdown in Costa Rica in 1991, assessed by ECLAC to be a consequence of the economic adjustments, fiscal measures and tighter monetary policy carried out in recent years.[51]

2.52 There is little trade between Australia and Costa Rica, which ranks as Australia's 11th trading partner in Latin America in 1990-91, with total trade amounting to A$2.28 million.

Ecuador

2.53 DFAT describes Ecuador's recent economic performance as "uninspiring" and sees "little possibility of any dramatic improvement in the medium term."[52]

2.54 The Committee is a little more optimistic than DFAT in regard to Ecuador. It notes that Ecuador's GDP grew by 3.5% in 1991 and per capita output increased by 1%. ECLAC notes that positive signs are also to be seen with respect to domestic demand and personal consumption. Gross private capital formation increased by 2% in 1991 and there was steady public investment.[53] The Committee also notes that the Ecuadorian Government has removed restrictions on foreign investment and made it possible for foreign investors to operate under the same conditions as Ecuadorean investors.[54]

2.55 Trade between Australia and Ecuador amounted to A$9.3 million in 1990-91, making Ecuador Australia's 9th trading partner in Latin America. Main items of export were cereals, and agricultural machinery and parts while cocoa beans represented the main item imported from Ecuador.

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49 DFAT submission, Committee Hansard, p. 30.

50 ibid., p. 31.

51 *Preliminary Overview*, op. cit., p. 7.

52 DFAT submission, Committee Hansard, p. 40.

53 *Preliminary Overview*, op. cit., p. 7.

54 Mr G. McKanna, submission, p. 4.

El Salvador

2.56 With the end to the civil conflict in El Salvador in 1991, there may be more prospect of bilateral economic relations than has been possible in the past decade. El Salvador is one of the countries praised by the IMF for prudent economic management in 1991.[55] It is also moving ahead with economic reforms which could present opportunities for Australian companies in the years ahead. ECLAC reports that economic activity in El Salvador was up by 3% in 1991 and all sectors of the economy except agriculture achieved satisfactory growth rates.[56] For the moment however, there is little economic interaction between Australia and El Salvador. Trade in 1990-91 amounted to A$585,000 comprising mainly import of oil seeds (A$431,000). Australia exported a negligible quantity of equipment and parts to El Salvador in 1990-91. There are approximately 8,000 Salvadorans in Australia, many of whom arrived between 1983-90 under the Special Humanitarian Program.[57]

Falkland Islands/Malvinas

2.57 Australia has very little bilateral contact with the Falkland Islands/Malvinas other than a sale of A$334,000 worth of aircraft and parts in 1990-91. There have been no imports from the Falklands/Malvinas for the past three years.

French Guiana

2.58 DFAT informed the Committee that Australia's relations with French Guiana are "minimal".[58] The description may also be applied to trade, which in 1990-91 amounted to A$62,000, and consisted of exports of meat and a variety of consumer items to French Guiana. Australia has imported only A$4,000 worth of products from French Guiana over the last 10 years. There were no imports in 1990-91. DFAT informed the Committee that the only possible substantial future interest Australia might have in French Guiana is "some form of involvement" with French space launches. However, to date Australia has had no significant dealings with French Guiana on the matter.[59]

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55 *World Economic Outlook*, op. cit., p. 23.

56 *Preliminary Overview*, op. cit., p. 7.

57 DILGEA, submission, Committee Hansard, p. 1231.

58 DFAT submission, Committee Hansard, p. 89.

59 DFAT, Committee Hansard, pp. 89, 226.

Guyana

2.59 DFAT is of the view that Guyana "will never be a major player economically in Latin America."[60] Bilateral trade in 1990-91 amounted to A$957,000 consisting mainly of import of Guyanan mineral ores (A$918,000). In the same year, Australia exported A$35,000 worth of tools to Guyana. The only noteworthy Australian investment in Guyana is BHP's 40% interest in an offshore oil exploration site.

Guatemala

2.60 Although Guatemala registered a moderate 3% growth rate in 1991[61] prospects for any substantial increase in Australia's bilateral economic relations with Guatemala do not appear to be good in the short to medium term.

2.61 DFAT describes Guatemala's economy as being "in a poor state, with a 70% inflation rate in 1990, a foreign debt of US$2.6 billion and a government claiming to be close to bankrupt."[62]

2.62 Bilateral trade in 1990-91 amounted to A$791,000 with coffee and oil seeds the main items imported, and a small quantity of Telecom equipment, furniture and parts exported. The trade balance was A$533,000 in favour of Guatemala.

Honduras

2.63 Honduras is one of the poorest Latin America nations with a per capita GNP of only US$610 in 1990.[63] It registered a growth rate of less than 1% in 1991,[64] and had both high employment and a sharply rising rate of inflation. Bilateral trade was worth only A$216,000 in 1990-91. The main item of export to Honduras was butter (A$132,000) and the main item of import, railway sleepers.

Mexico

2.64 The GDP of Mexico grew by more than 4% in 1991. ECLAC describes the expansion in the Mexican economy as "impressive" and notes that the largest

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60 DFAT submission, <u>Committee Hansard</u>, p. 90.

61 *World Economic Outlook*, op. cit., p. 23.

62 DFAT submission, <u>Committee Hansard</u>, p. 32.

63 *World tables 1991*, op. cit., p. 5.

64 *Preliminary Overview*, op. cit., p. 7.

increases were registered in the services sectors and the Maquiladora (in-bond) assembly industries. It attributes the growth to:

- a plentiful inflow of capital, both in the form of direct foreign investment and capital repatriated; and

- recent changes in government policies which have resulted in the liberalisation and deregulation of the economy and in the privatisation of public enterprises.[65]

2.65 As in the case of Chile, Mexico was the focus of overwhelmingly favourable comments in the submissions made to the Committee. DFAT describes Mexico in these terms:

> "Mexico is entering a period of far reaching economic, political and social change, possibly greater than at any time since its revolution of the first decades of this century ... in a region where instability and military coups have frequently characterised regional politics, Mexico has experienced an extended period of political stability."[66]

2.66 DFAT also has favourable comments to make about the Mexican economy, and President Salinas' efforts to carry out economic reforms based on free enterprise and market forces.[67]

2.67 Austrade cites the structural changes of recent years as evidence of the Mexican Government's success at re-structuring the economy:

- modernisation of the productive system;
- restructuring of the financial sector;
- privatisation of previously nationalised banks;
- deregulation of foreign trade; and
- control of inflation.

2.68 Mexico is presently Australia's third largest trading partner in Latin America with a total trade of A$158.5 million in 1991. The trade balance is A$30 million in Mexico's favour.

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65 *Preliminary Overview*, op. cit., p. 6.

66 DFAT submission, Committee Hansard, p. 45.

67 ibid., pp. 46-7.

Nicaragua

2.69 The Committee recognises that the political and economic situation in Nicaragua in the near future is unlikely to result in any significant opportunities for either trade or investment. Austrade informed the Committee that in 1986 a loan of A$3 million was issued to Nicaragua under the Export Finance and Insurance Corporation (EFIC) program. As at March 1991, A$2.6 million was in default. The balance (A$1.2 million) will fall due between March 1991 and January 1993.[68]

2.70 ECLAC reports that the wide-ranging reforms instituted by President Violetta Chamarro in 1990 resulted in severe economic consequences in the short term. The operations of publicly-owned companies were paralysed in the midst of privatisation, and construction slumped considerably as a result of cuts in government spending. In 1991, Nicaragua's per capita GDP continued on the downward trend seen throughout the 1980's.

2.71 Australia had a total trade of just over A$1 million with Nicaragua in 1990-91. This comprised mainly of export of Australian agricultural machinery and parts, and import of coffee and substitutes from Nicaragua.

Panama

2.72 It appears that, as a result of prolonged political conflict, Panama has yet to recover from its serious economic difficulties. ECLAC reports that despite a growth rate of 5% for 1991, Panama has still not reached the level of economic activity it attained in 1987.

2.73 DFAT is of the view that Panama is unlikely to be an important market for Australia in the medium term although it assesses that Panama's long term economic future "must be considered to be reasonably bright".[69]

2.74 In 1990-91 Australia's bilateral trade with Panama amounted to A$26.6 million. Although statistically this made Panama Australia's 6th largest trading partner in Latin America, by far the biggest component of this trade (A$24 million) consisted of sale of marine craft.

Paraguay

2.75 Paraguay is one of the least developed countries in Latin America and one of the most isolated. It has only recently (in 1989) emerged from 35 years of military rule. DFAT is of the view that President Rodriguez's economic reform program is losing

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[68] Austrade, submission, Committee Hansard, p. 333.

[69] DFAT submission, Committee Hansard, pp. 50, 93.

momentum and points out that, generally, Paraguay is still inward-looking economically as well as politically.[70] Bilateral relations with Paraguay are "minimal" and trade with Australia amounted to only A$320,000 in 1990-91, making Paraguay Australia's 18th trading partner in Latin America and 154th overall.

Peru

2.76 Peru is not rated highly by either DFAT or Austrade for trade and investment opportunities in the short to medium term. DFAT notes that President Fujimoro's reforms have come at a high social cost including greater unemployment, lower real wages and increased bankruptcies.[71] Similarly, ECLAC acknowledges that tensions were sparked by the "severe stabilisation measures and the radical structural adjustment policies applied in August 1990."[72] In addition, DFAT points out the continued serious problem posed by three major terrorist organisations (including Sendero Luminoso, the "Shining Path" guerillas) and drug traffickers.[73]

2.77 Continuing this theme, Austrade points out that the Peruvian economy remains "bedevilled" by continuing social unrest, high unemployment, inflation, severe foreign debt and acute shortage of foreign exchange.[74] The General Manager of Banco Santander describes Peru as "at the other end of the spectrum" from Chile in terms of growth, stability and opportunities, "where poverty is rampant and where there are no signs of improvement on the horizon."[75]

2.78 The considerable economic, social and political difficulties facing Peru, as well as the fragility of the reform process itself, were illustrated by President Fujimori's 5 April 1992 dissolution of Congress and suspension of the Constitution. President Fujimori cited as reasons for his action, obstruction to his reforms by the legislature and judiciary and the need to reorganise the two branches in order to ensure the progress of economic reforms.

2.79 The Committee recognises that, in the short term, Peru faces significant internal problems. However it also notes that Peru possesses significant mineral, oil, gas and agricultural resources. According to the Economist Intelligence Unit (EIU), Peru's vast mineral resources have not been exploited so far mainly because of lack of funds. The EIU also points out that Peru has one of the largest reserves of phosphates in the

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70 ibid., pp. 1-2.

71 ibid., p. 53.

72 *Preliminary Overview*, op. cit., p. 6.

73 DFAT submission, Committee Hansard, p. 53.

74 Austrade, submission, Committee Hansard, p. 316.

75 Mr J. Blanco, submission, p. 6.

Pacific basin.[76] These resources combined with a successful reform program, will, in time significantly increase the attractiveness of Peru in regard to trade and investment. For this reason, Peru should be given consideration in Australia's long term trade strategy.

2.80 The Ambassador of Peru assured the Committee that there are presently no restrictions on the repatriation of capital from Peru and no distinction whatsoever between Peruvian capital and foreign capital. As he described it:

> "... perhaps in that respect the legislation in Peru could be the most favourable that you can find in Latin America."[77]

2.81 In 1990, trade with Peru amounted to A$23.7 million, making Peru Australia's 7th largest trading partner in Latin America.

Suriname

2.82 There is very little Australian contact with this former Dutch colony whose economy continues to depend on bauxite and aid, particularly from the European Community. Suriname is at the bottom of Australia's list of trading partners in Latin America. Bilateral trade in 1990-91 amounted to only A$6,000 worth of export of Australian pharmaceutical products and base metals. There were no imports from Suriname.

Uruguay

2.83 DFAT describes Australia's bilateral relationship with Uruguay as a "useful but relatively modest one." There is relatively little bilateral trade, which in 1990-91 amounted to A$4.3 million, comprising a variety of Australian manufactured articles, and Uruguayan fish products.

2.84 ECLAC reports that Uruguay registered a 2% growth in 1991 after zero growth in the three preceding years, with the services sector, especially tourism, registering the strongest growth.[78]

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76 *Peru: Country Profile 1990-91*, Economist Intelligence Unit, London, 1990, pp. 17-9.

77 H.E. Mr G. Bedoya, Committee Hansard, p. 1854.

78 *Preliminary Overview*, op. cit., p. 7.

Venezuela

2.85 DFAT characterises relations with Venezuela as "low-key, but with substantial potential for growth."[79] ECLAC notes that Venezuela's economic recovery picked up significantly in 1991 when production rose by nearly 9% in both petroleum and non-petroleum sectors. In particular, construction rose by 30%.

2.86 The Committee agrees that opportunities for trade and investment exist in Venezuela, particularly with above-average growth forecast by the IMF for 1992.[80] Trade with Venezuela, Australia's 5th largest trading partner in Latin America, appears to be capable of improvement from the A$49 million recorded in 1990-91. It should be noted that between 1986-90 Australian exports to Venezuela grew by 62.6%.[81] Nevertheless, some degree of caution seems appropriate as to whether the political and economic reform process can be sustained in the face of significant social hardship. The fact that the abortive military coup of February 1992 took place in a country that had just recorded its highest growth rate in 27 years[82] is a reminder of the tenuous hold of the reform process in some Latin American countries.

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79 DFAT submission, Committee Hansard, p. 98.

80 *World Economic Outlook*, op. cit., p. 23.

81 *Australian Trade and Investment Development*, p. 224.

82 *Australian Financial Review*, 6 February 1992, p. 12.