

The Honorable Herald Munoz-February 13, 2007

“Latin America: Business Prospectus”

“Has the U.S. Lost Latin America?” This title of the lecture delivered by Ambassador Herald Muñoz, Chile’s permanent representative to the United Nations, stimulated the thinking of over 600 people who attended the World Affairs Council talk, hosted jointly with the University of North Florida on February 13. Ambassador Muñoz also presented his thoughtful perspective on U.S. / Latin American relations and their economies during the World Affairs Council Global Business Luncheon.

Ambassador Muñoz met his American wife, Pamela, at the State University of New York in Oswego, where he graduated with a B.A. in Political Science, later earning a Ph.D. in International Studies from the University of Denver, where his classmate was Secretary of State Condoleezza Rice. He and his wife lived in Chile through the difficult years of Chilean dictator Pinochet and fought for the return of Democracy to Chile. He spoke with pride of Chile’s new robust economy, democratic institutions, and female President Michelle Bachelet. His eyes sparkled when he answered an audience question about the fascinating story of the Chilean wine industry and the exciting rediscovery of the once thought lost Carmenere grape.

With the U.S. focus on the Middle East, little has been aired in the media about the economics of Latin America, comprised of the Caribbean, Mexico, Central America and South America. Nor has this Administration focused attention on our neighbors to the South, although President Bush is making a long overdue visit there in March. The U.S. was once the largest trading partner of Latin America, but now our neighbors are quietly but determinedly seeking trade alliances with non-U.S. partners. The result: robust economies that no longer depend on the U.S. Who has developed trade relations with our South American friends? First and foremost China, a nation with 1.2 billion people, all thirsty for natural resources and the commodities our hemispheric neighbors produce. But China is not just buying fruits and vegetables and locking up contracts for energy and other natural resources. They are becoming true partners, investing their burgeoning foreign currency reserves into the infrastructure of countries like Chile, eager to have new partners.

Latin American economies are growing 4.5 - 6% per year, as compared to 1980 - 2005 when growth was 2.5%; merely 0.4% if measured per capita. Fiscal discipline, higher savings and lower external debt are insulating the region making them less vulnerable to external shocks. What has changed markedly is that hyperinflation, a crushing phenomenon of the past, has been replaced by sound economic policies that manage inflation and encourage direct foreign investment resulting in vigorous economies with profitable commodity prices. But not all have prospered: Mexico has only surpassed 4% GDP growth twice and Brazil not 3%, but Argentina's growth is 10% and Venezuela 13% (largely from oil). Assuming a soft landing for the U.S. economy, GDP growth for 2008 is projected at a healthy 4.7%.

What has led to this dramatic turn around? "Leadership, a sense of future that is needed to make progress and transparency creating a level playing field and fighting corruption," says Muñoz. Sustainable growth will come from value-added, knowledge based industries.

But gender, ethnic and regional inequalities (cities vs. towns) present serious challenges to attain social cohesion. Democratic institutions and electoral representation, after so many years of dictatorship, need time to become the fabric of life and are continually being tested. Of the fifteen Presidents elected in the region, none completed their terms. While constitutional solutions were utilized for their removal, rather than military coups, changing constitutions engenders lack of confidence in democratic institutions, threatening the very social cohesion to which these societies strive.

In Chile, focalized policies on education, health and housing are changing the dynamic from 40% of the population living in poverty in 1990 to 18.8% today. While still not ideal, Chile is performing better than many of its neighbors with a speed of growth now equal to that of Asia. Muñoz attributes the success to a strong state filling the health, education and pension gaps, creating opportunity rather than welfare. Some disagree, saying that privatization is required for continued economic expansion. Chile's challenge, like that of many rapidly developing economies, is how to "grow with equality"; "divided societies don't prosper." In Muñoz's view, the key is to continue to open to global markets, diversify partners, invest in research and

development, produce value-added exports and negotiate multiple bilateral, sub-regional free trade agreements.

Has the U.S. lost Latin America? Probably, but I don't think we ever really had it to lose in the first place. Perhaps the Bush visit in March will awaken the administration's and the public's interest in this important partner with whom we share our precious strategic hemisphere. The time has come, once again, to be "good neighbors" before the opportunity has completely passed us by.

-Diane DeMell Jacobsen, Ph.D.

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