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Comment & analysis

Defending Latin America

By Sebastian Edwards
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Bond prices and currency values have plunged throughout Latin America. Investors' sentiments towards the entire region have soured as a result of Argentina's protracted crisis and growing political uncertainty in Brazil. Even Chile and Mexico, which until recently were considered model performers, have been affected by this malaise. Some analysts even say the spectre of populism is haunting Latin America.

Nonsense. This pessimism is based on gross generalisations that ignore the region's rich diversity, and on incorrect interpretations of recent economic trends.

It is true that some of these countries - Argentina, Venezuela and, more recently, Uruguay - are going through very difficult times and that others, such as Brazil, may elect a left-of-centre leader. However, it is also true that most Latin countries are fundamentally healthy and have made tremendous progress during the past decade or so. And with the exception of Cuba, in every country democracy is alive and well.

Consider a few examples. In Mexico, growth is picking up and inflation is at its lowest point in over a decade. Moreover, Mexican politicians from across the ideological board share a new vision that calls for rapid modernisation and economic convergence towards the North American Free Trade Agreement partners from the north, the US and Canada. Long gone are the times of anti-US rhetoric and strident "Third Worldism".

Costa Rica continues to progress on the back of its first-class educational system and its productive labour force. And the poorest countries in Central America - Honduras and Nicaragua - are in line to receive significant debt forgiveness under the International Monetary Fund and World Bank's initiative to help poor countries that are highly indebted. This will allow them to release funds for social programmes and poverty alleviation.

Alvaro Uribe, Colombia's president-elect, is a breath of fresh air. His call for United Nations mediation in the country's decades-old armed conflict and his appointment of a first-class cabinet are encouraging signs. In spite of new threats by leftwing guerrillas, Colombia may surprise us in a positive way, both economically and politically, in the next few years.

Further, Chile continues to enact modernising reforms and to exhibit robust growth in the midst of a worldwide slowdown that has resulted in reduced demand for its exports.

The recent panic has been fed by inadequate analysis - both by the media and other pundits - of Latin America's economic and social trends. Two misconceptions are worth discussing. First, analysts have incorrectly interpreted the weakening of some currencies as a sign of economic frailty. This is bad economics as well as being over-simplistic. In fact, in a number of countries, including Colombia, Chile and Uruguay, a weaker currency is a welcome development. This is particularly so in Mexico, where until recently a strong peso was threatening the growth of exports.

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Second, some have interpreted the slowdown in the reform effort as a signal that nostalgia and populism are about to return across the region. This is not the case. What is true is that in a number of countries the electorate is tired after years of reforms and that many politicians want to call a "time-out". I would be worried if this pause resulted in policy reversals. Much more likely, though, are slower-moving modernisation and, in some cases, moves towards a more European-style social arrangement. But none of this is intrinsically bad. It is just a reflection that we should expect diversity from such vast collection of nations.

Of more concern, however, is that the US is not taking the region seriously. The recent protectionist lapses by the Bush administration, illustrated by the tariff on steel imports and the farm subsidies bill, are very worrying indeed. And the lack of progress in the agenda for the Free Trade Area of the Americas is largely the result of an inability by the US Congress to purge itself of its traditional provincialism.

An important remaining question is the IMF's approach towards crisis resolution and its implications for Latin America. The attitude towards Argentina is risky. But moving too fast would surely imply throwing good money after bad. The fund's willingness to assist Brazil and Uruguay is positive and does reflect commitment towards the region. Could it do more? Probably. But the challenge is to design good programmes, not to dispense monies that will go down the drain or into corrupt politicians' pockets.

Language is powerful and words have to be used carefully. When top journalists, respected analysts and well-funded, inside-the-beltway think-tanks panic, there is a risk of generating a self- fulfilling prophecy.

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