



Mixed outlook in Latin American markets for 2016

The New Zealand Government's "pivot" in international trade policy last year towards Latin America was a timely new strategy in light of China's recent economic slowdown.

Recent visits by PM John Key and MPs to Mexico, Brazil, Chile and Colombia

have raised New Zealand's profile and strengthened bi-lateral frameworks to facilitate trade, especially in education, agro-technology and IT. And resources have been increased for both New Zealand Trade and Enterprise and Education NZ in the region.

As a whole, Latin America (Mexico, the Caribbean, Central and South America) is the fourth largest economy in the world with a population of around 595 million and vast natural resources. The purchasing power of its burgeoning middle classes provides an enticing proposition for New Zealand exporters.

In the past, so-called "golden decade", Latin America enjoyed stellar economic growth on the back of high commodity prices driven by demand from China. With the exception of Argentina, Brazil and Venezuela, all the regional economies strengthened their domestic capital markets and to varying extents lessened their dependence on commodities.

Decelerating growth in China has driven commodity prices down and caused severe recessions in Brazil and Venezuela, which rely heavily on crude oil exports.

But Latin American GDP will grow 0.2 per cent during 2016 (and excluding Brazil and Venezuela the regional growth will be 2.4 per cent) *.

Mexico, Latin America's second-largest economy, will grow GDP 2.6 per cent* due to close economic ties to firming US markets.

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Other economies with close ties to US markets are: Panama, which will grow 6.2 per cent* on the back of financial services and a new port on the Panama Canal; followed by the Dominican Republic at 5.2 per cent, supported by tourism and services; and Costa Rica at 3.3 per cent* from agricultural exports and high-tech products including microchips.

Bolivia will grow GDP 4.5 per cent* with the investment of US\$8.2 billion in hydroelectricity projects and infrastructure.

Chile, one of the region's most business-friendly and robust economies, will experience a soft rebound in investment and rising consumption, with 2.1 per cent* growth.

An ambitious infrastructure development plan and increasing consumption will power 3 per cent* growth in Colombia.

Paraguay's output will also grow 3 per cent*, on the back of a diversified manufacturing sector.

Increased mining export volumes will enable Peru's GDP to grow 3.4 per cent* this year, and 6 per cent in 2017, as mining mega-projects coming on-stream lift copper production by 80 per cent.

Overlook the difficulties

Argentina, Brazil and Venezuela are in recession as a result of populist economic policies, which became unsustainable when commodity prices fell, leading to massive fiscal deficits plugged by printed money that has led to high inflation.

A new government in Argentina, Latin America's third-largest economy, will improve output as capital and currency controls have been removed and fiscal tightening is underway, which will dampen inflation that was 29.1 per cent in 2015. The Argentine economy will grow 0.8 per cent* in 2016 as reforms push a rebound in growth, as investment strengthens on renewed investor confidence.

Output in Brazil, the largest economy in the region and seventh largest in the world, will contract 2 per cent* in 2016 (after contracting 3 per cent in 2015). Economic confidence and government stability in Brazil are beset by inflation (10.4 per cent

in 2015), a pervasive and ever-widening corruption scandal, efforts to impeach President Dilma Rousseff and the lowering of Brazil's sovereign debt rating to junk status.

Venezuela has been hit hard by the fall in crude prices, upon which it depends for 80 per cent of its national budget, and from economic mismanagement, which has resulted in the world's highest inflation (179.6 per cent in 2015) and volatile politics. It's fair to say the economy is cratering as GDP will contract 7 per cent* in 2016 after contracting 6.7 per cent last year.

New Zealand's early exporters to China were confronted with political volatility and roller-coaster economic conditions but, as well-established traders by the time conditions improved, they ultimately reaped handsome rewards. New Zealand exporters taking the same path in Latin America will profit just as handsomely for their prescience and perseverance.

* Source: 2016 Latin America GDP Forecast by the United Nations Economic Commission for Latin America and the Caribbean.

• Thomas Manning is governing director of Latin American business consultancy Manning Group Limited; a founding member, former vice-president and long-standing director of the Latin America New Zealand Business Council and a regular Buenos Aires Herald correspondent on New Zealand/Latin American trade matters.
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