

Canadian Foundation for the Americas
Lester B. Pearson Building, Ottawa, April 21st 2006

**A Critical Look at Neglect
and Opportunity in Latin
America and the Caribbean**

**Canadian Investment &
Trade in Latin America:
Obstacles & Opportunities**

Pablo F.G. Bréard

Vice-President & Head of International Research



Latin America in Emerging Markets Context

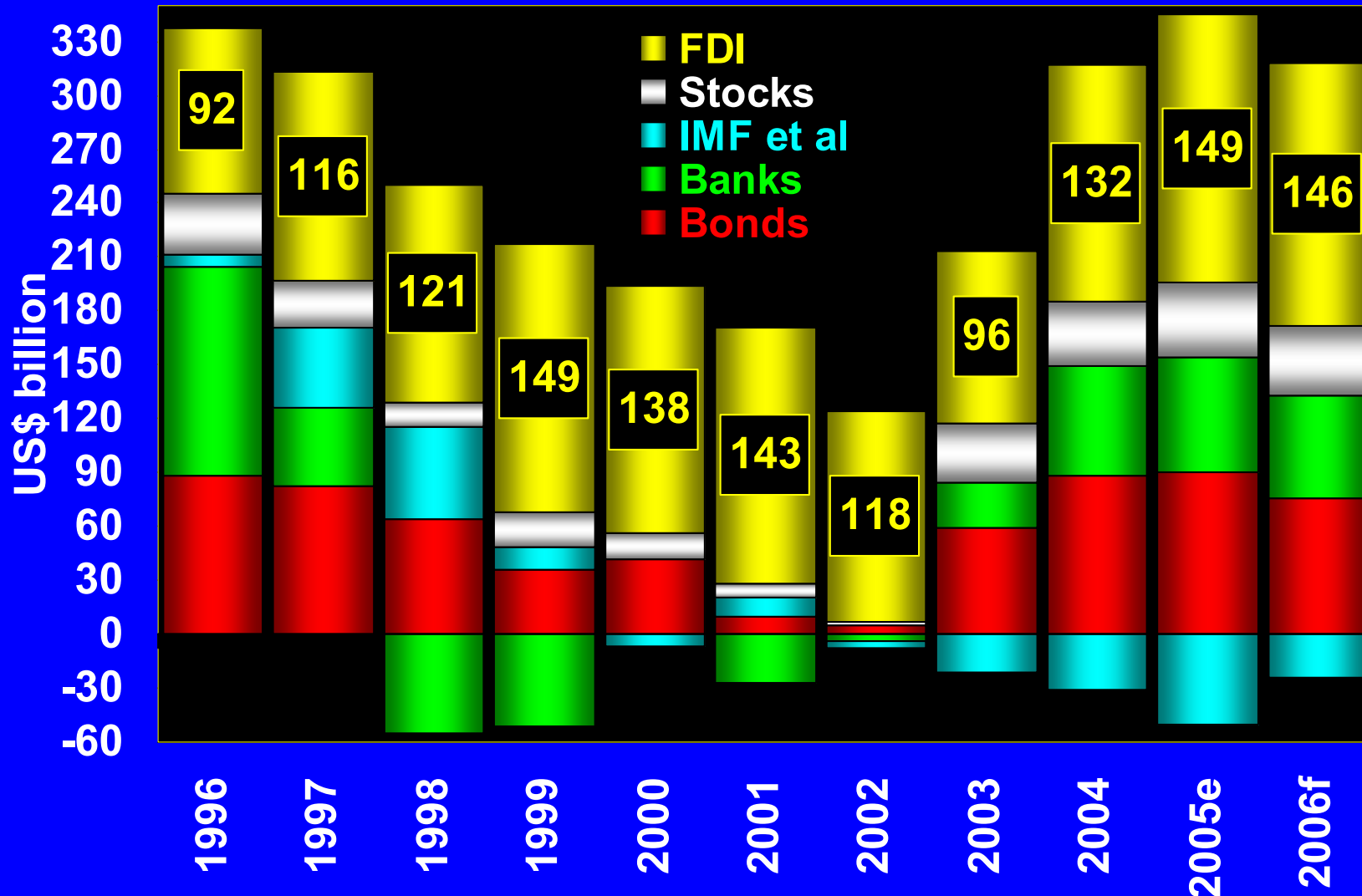
MIDDLE EAST: Heightened Security Tensions – Iraq out of control – Ongoing Israel/Palestine conflict – Iran's Nuclear Development Programme: crisis in sight

EUROPE: Russia as global (de)stabilizing force in energy markets – Turkey as geo-strategic link for US & Europe – EU enlargement fatigue? – Avian flu outbreak

ASIA: Robust growth in China & India – Quest for global resources – US-India nuclear deal – Massive foreign exchange reserves – China's banks & currency reforms

AMERICAS: Heavy electoral calendar – Low-inflation Growth & Debt sustainability – Energy (in) security ? – US foreign policy – Intense Bilateralism ► FTAA failure

Net Capital Flows to Emerging Market Economies

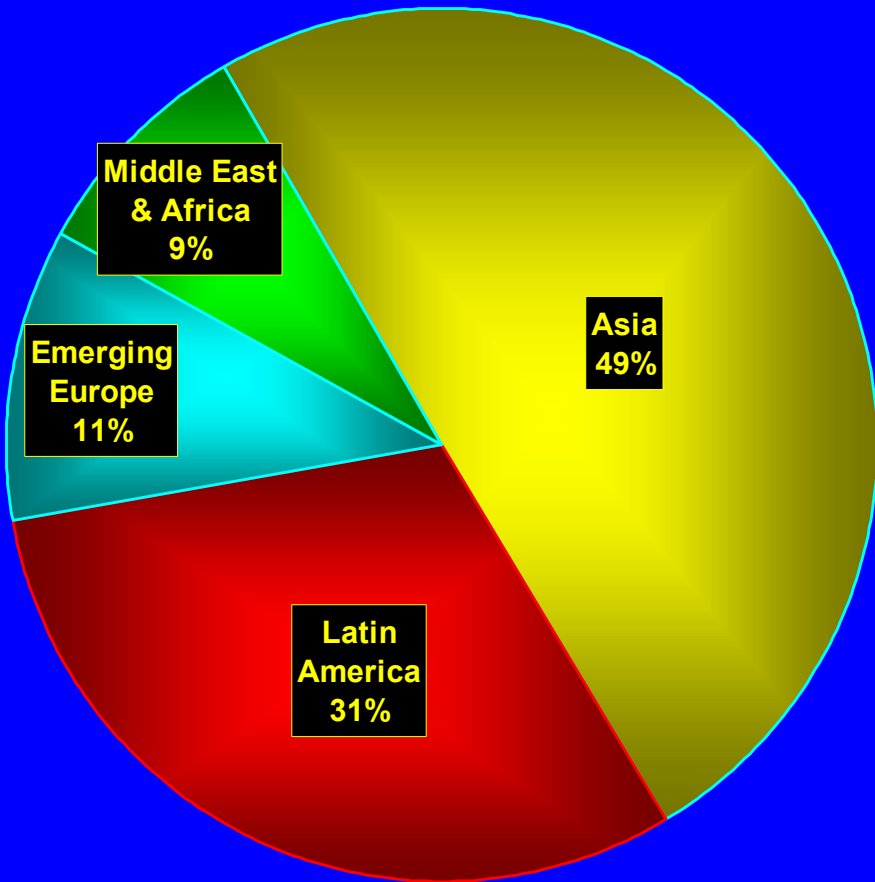


Source: Institute of International Finance Sep 2005

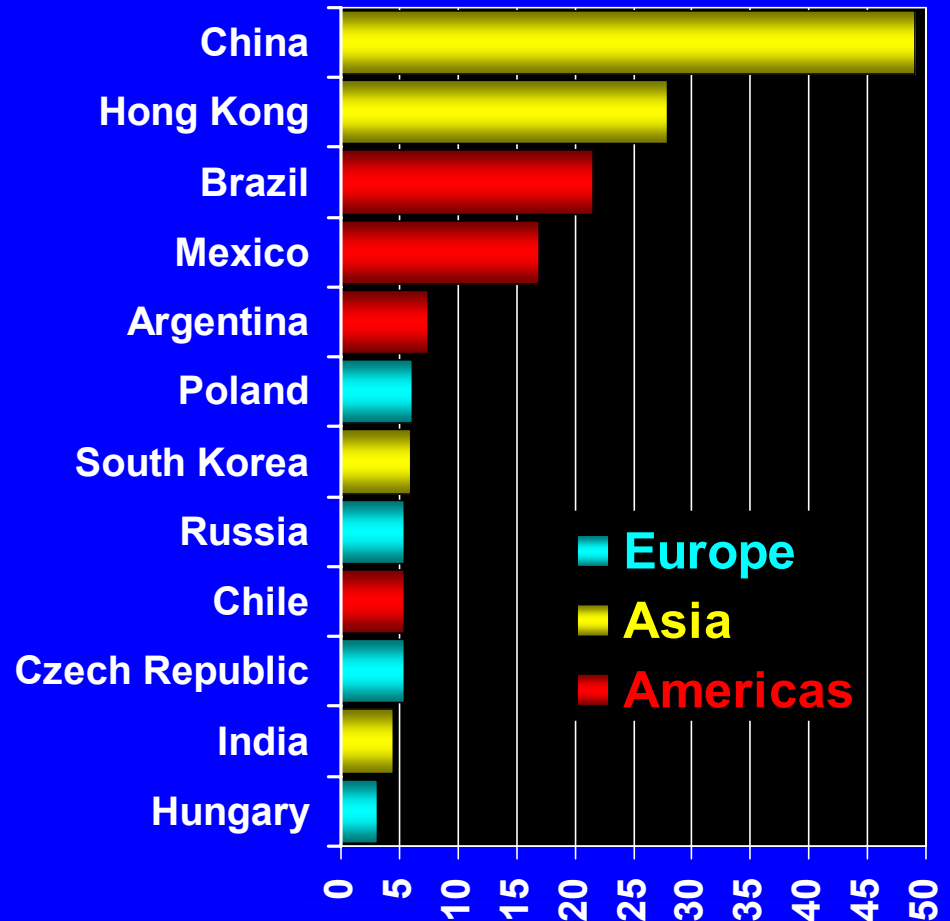


Foreign Direct Investment by Receiving Country

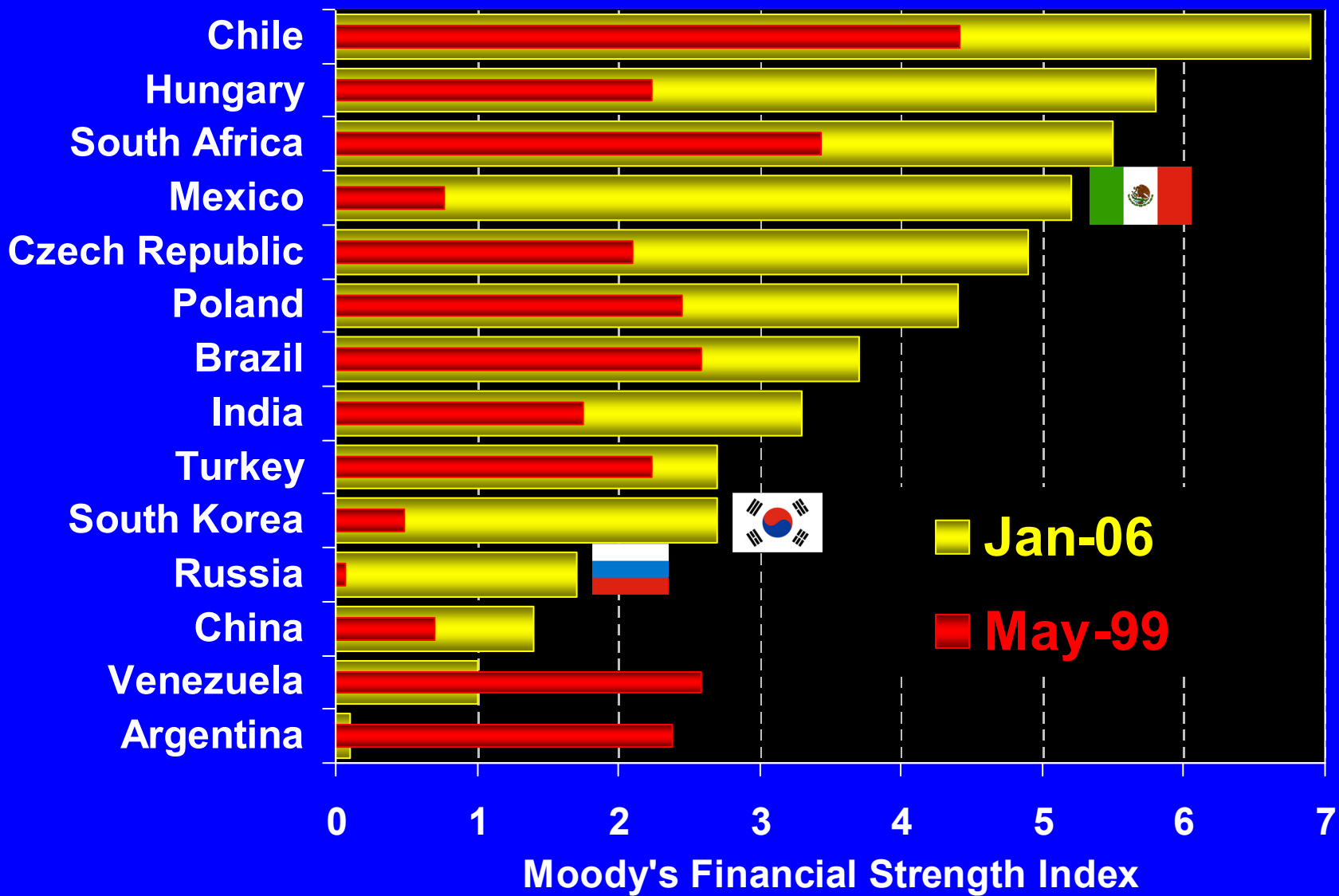
By Major Region



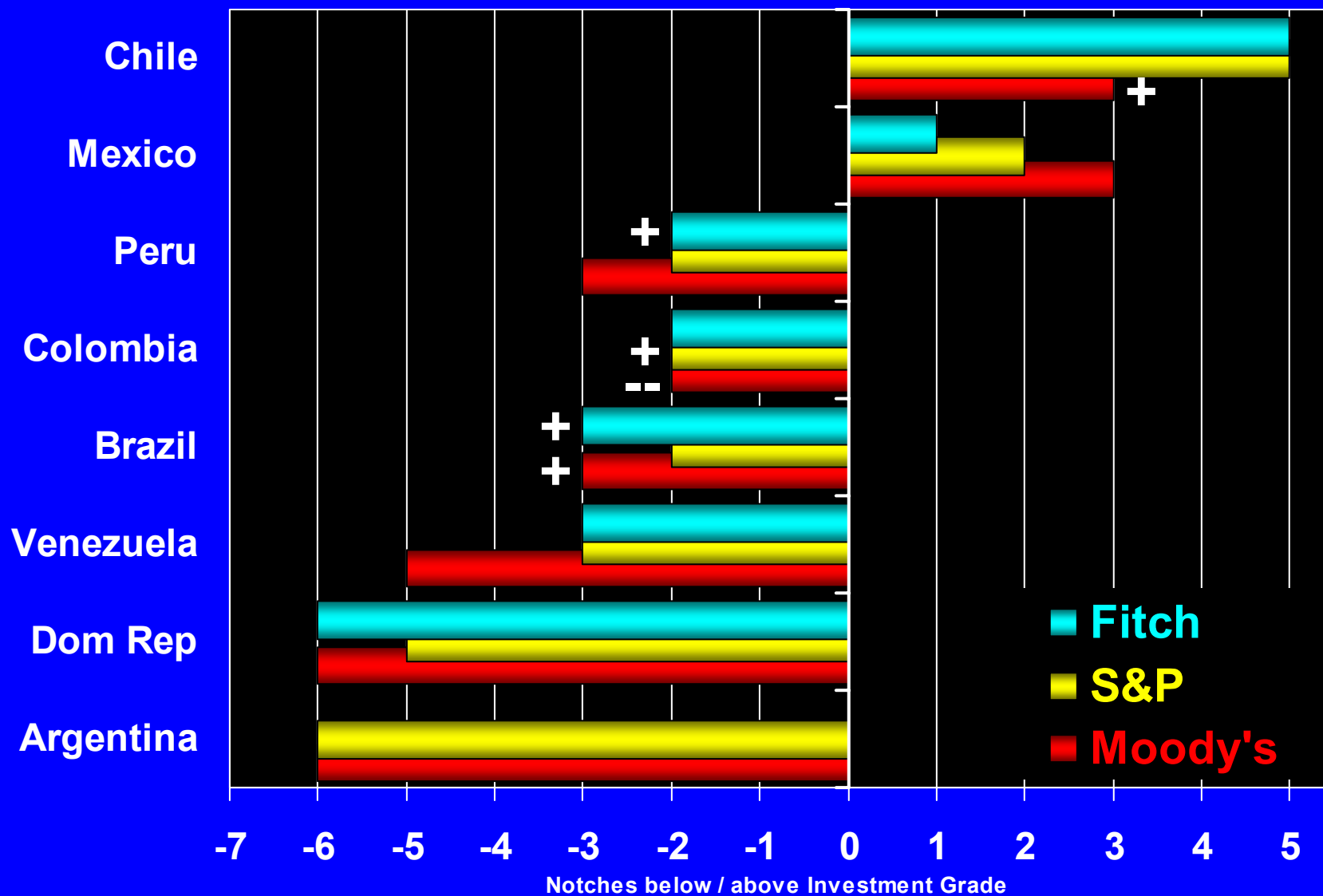
By Country (6-yr annual average)



Comparative Global Financial Sector Strength



Latin-8 Comparative Sovereign Credit Ratings



Changing Leadership in South America



Electoral Calendar in the developing Americas

Regional Elections		Congressional	Presidential	
Country	Argentina	HIGH	Oct-05	Mar-07/Oct-07
	Bolivia	HIGH	Dec-05	Dec-05
	Chile	LOW	Dec-05	Dec-05/Jan-06
	Costa Rica	LOW	Feb-06	Feb-06
	Colombia	MEDIUM	Mar-06	May-06
	Peru	HIGH	Apr-06	Apr-06/Jun-06
	Dom. Rep.	LOW	May-06	
	Mexico	HIGH	Jul-06	Jul-06
	Brazil	HIGH	Oct-06	Oct-06/Nov-06
	Ecuador	HIGH	Oct-06	Oct-06
Venezuela	MEDIUM	Dec-05	Dec-06	

Foreign Business Relevance



Changing Leadership in Mexico



**Felipe
Calderon**



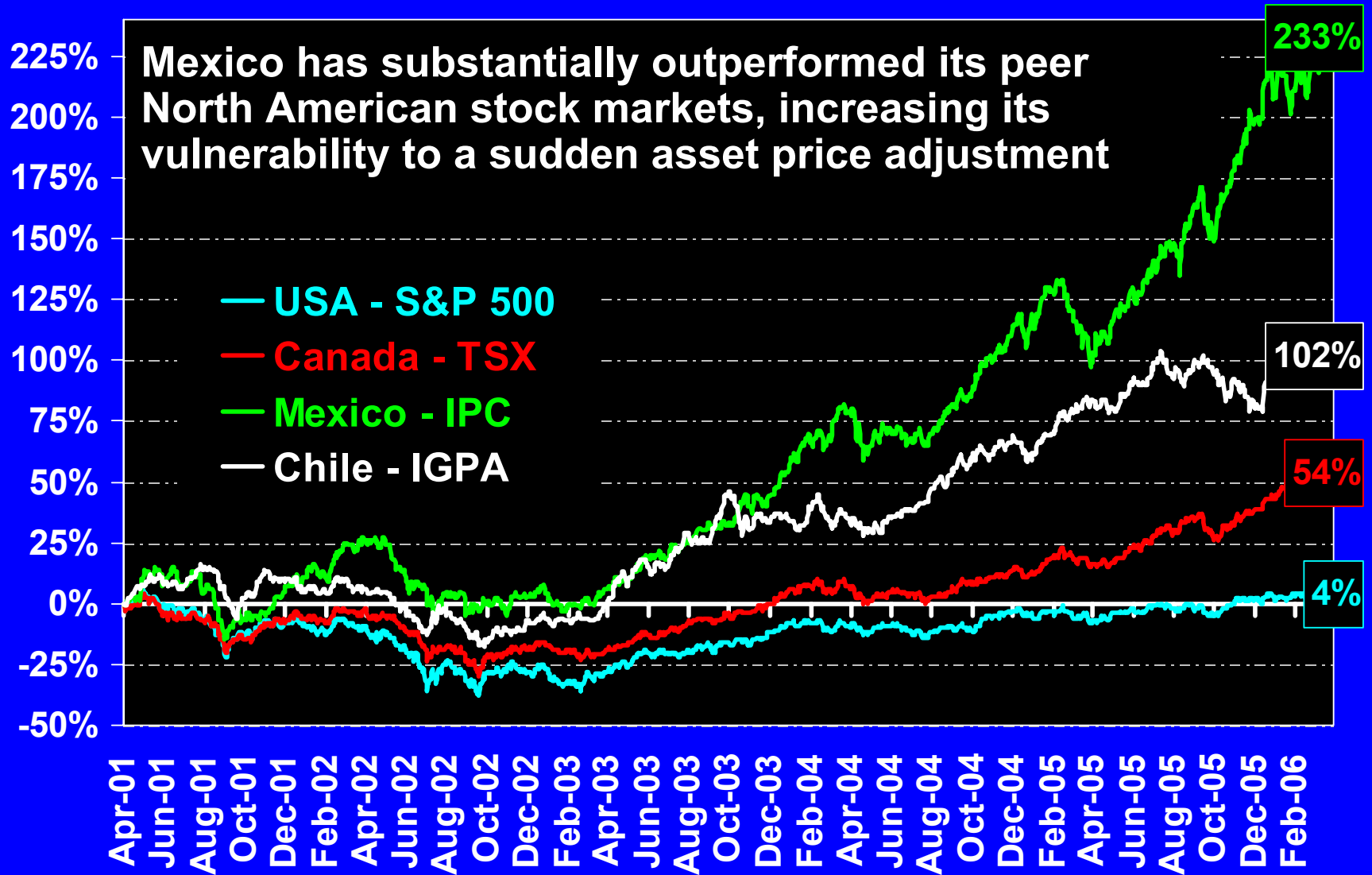
**Andres-Manuel
Lopez-Obrador**



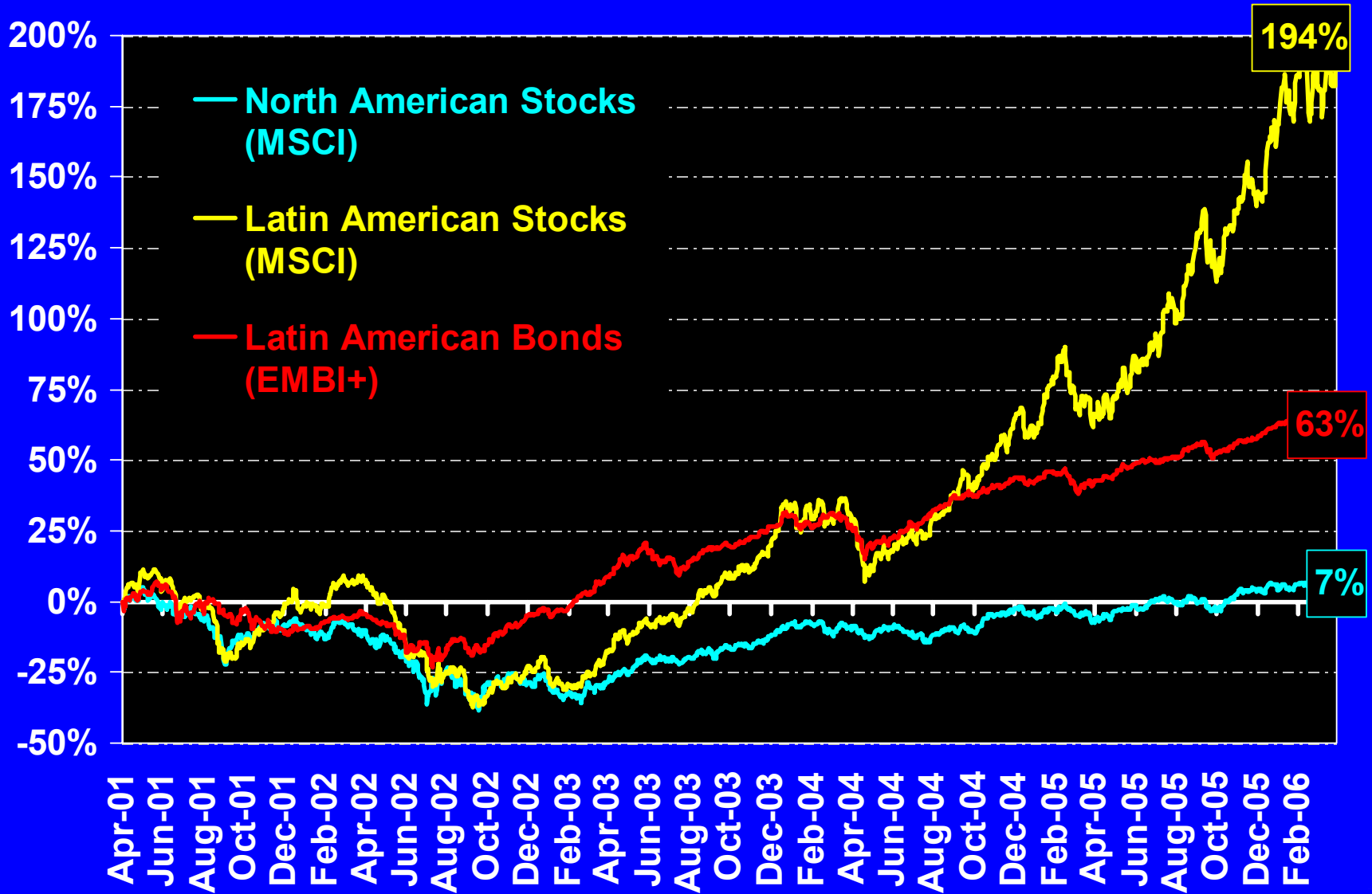
**Roberto
Madrazo**



NAFTA+ Zone Convergence – Equity Securities Markets



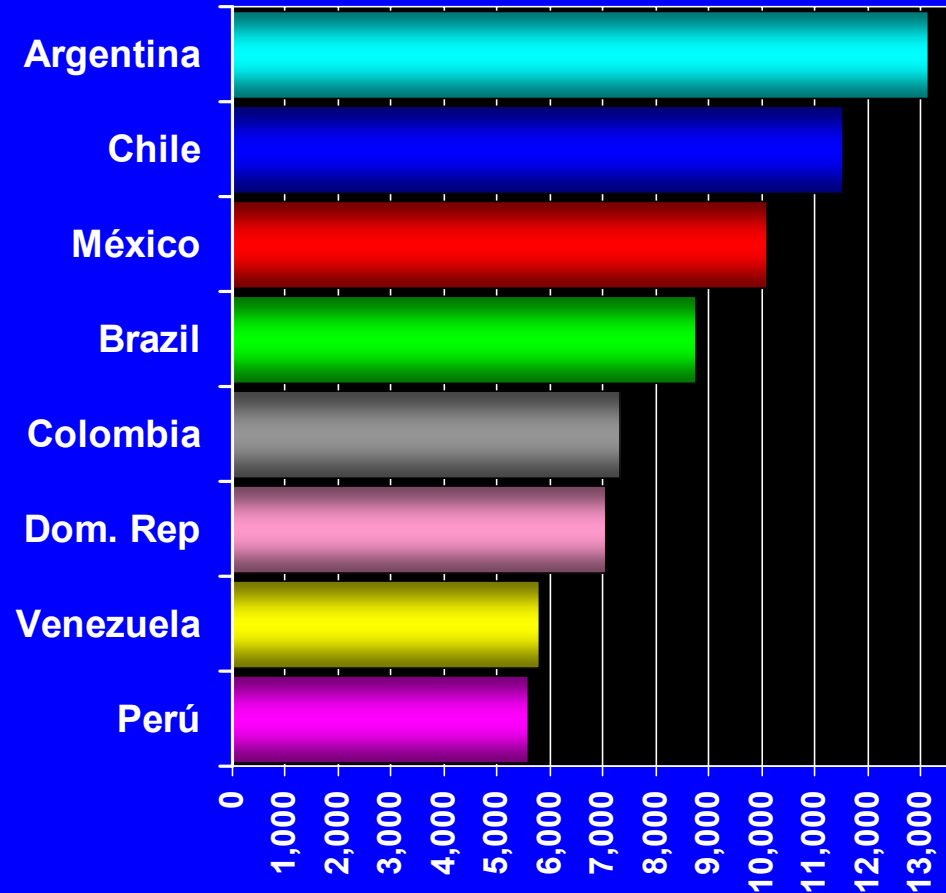
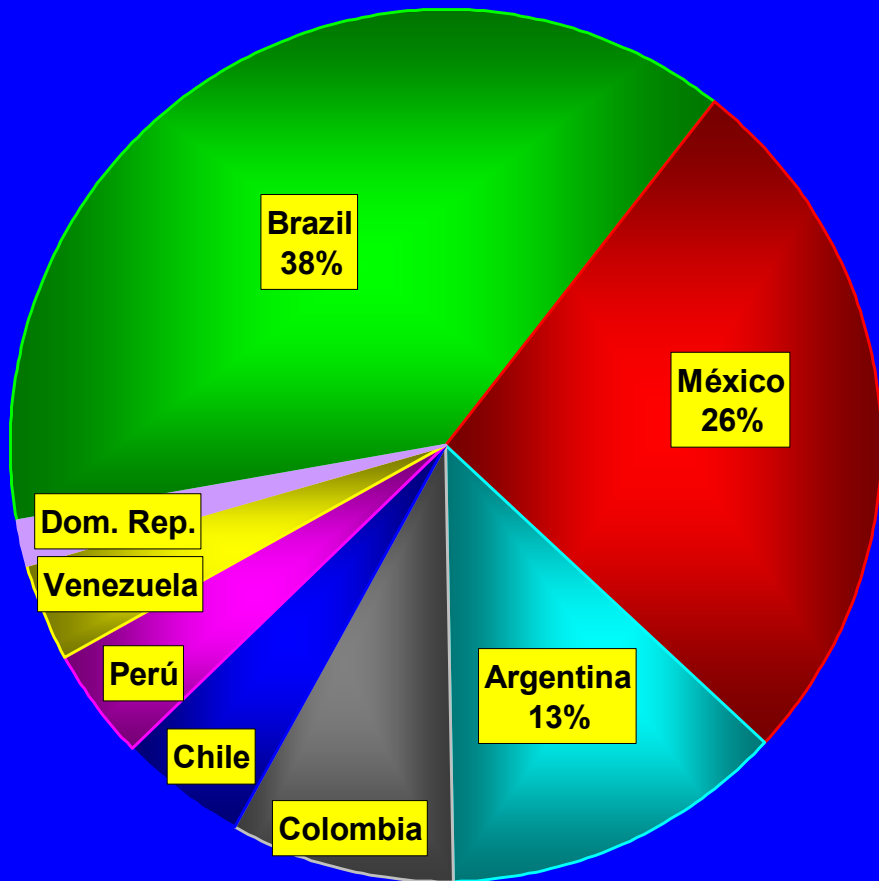
The Global Quest for Yield ► Booming Latin American Markets





Core Latin America GDP (ppp-based)

Latin-8 GDP = US\$4 trillion

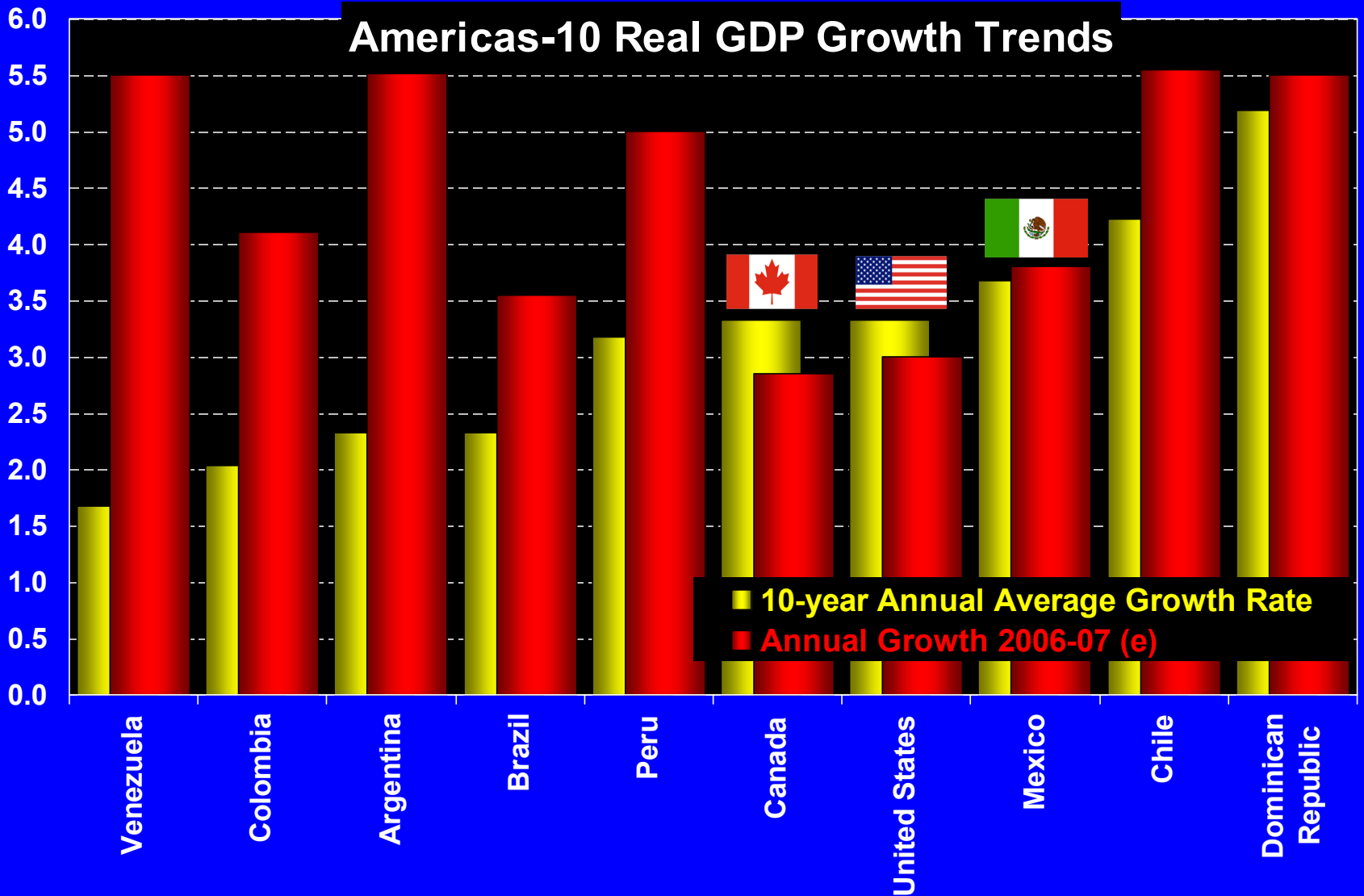
Latin-8 GDP per Capita



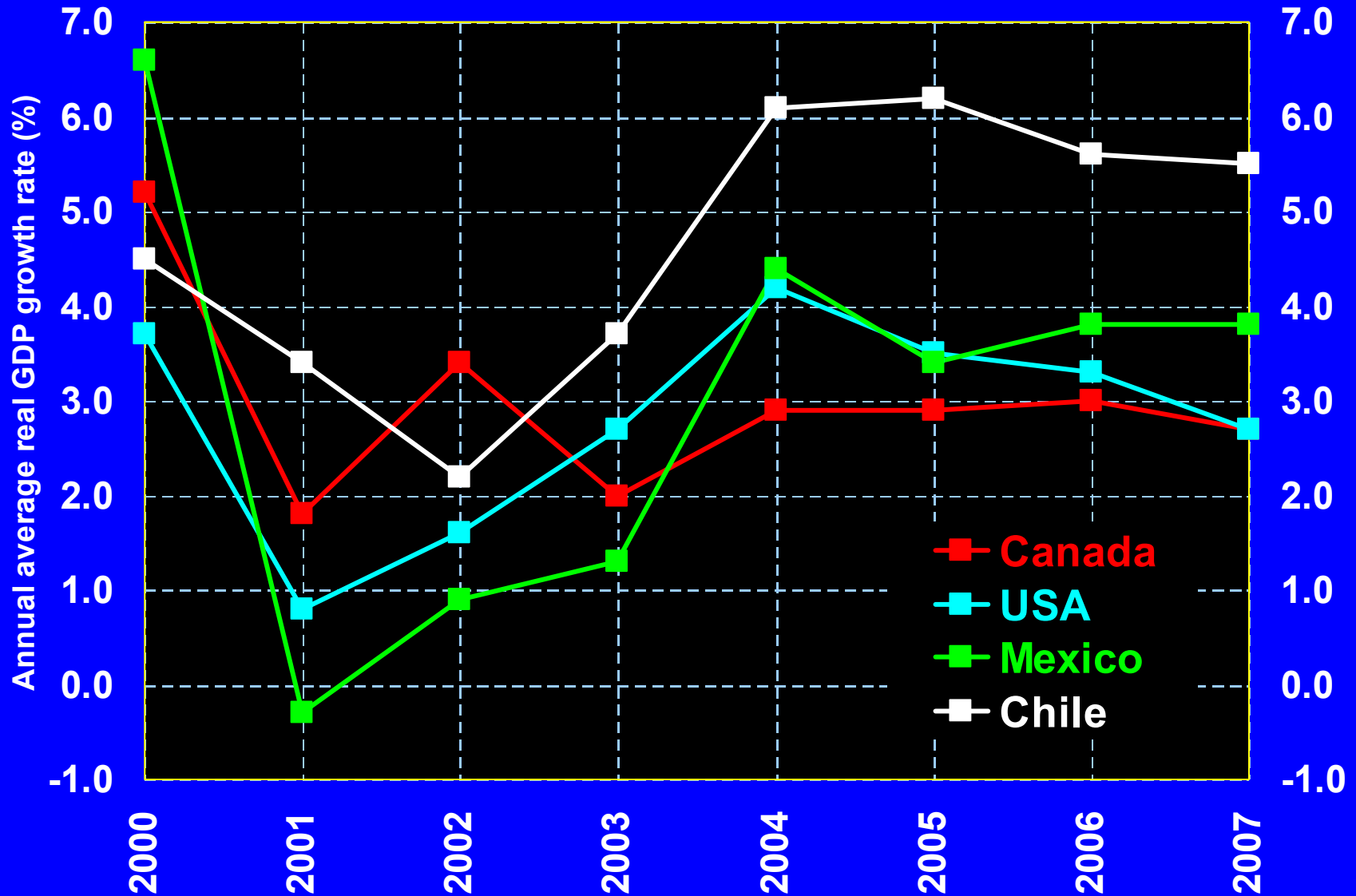
Latin America in Global Context ► Sustained Growth

Economic Zone	95-04	2004	2005e	2006f	2007f
NAFTA zone	3.2	4.1	3.5	3.3	2.8
	3.2	4.2	3.5	3.3	2.7
Europe	2.2	1.8	1.4	1.8	1.7
Japan	3.6	2.3	2.8	2.5	2.0
Developing Asia	5.5	6.6	7.1	6.6	6.3
	8.8	10.1	9.9	9.5	9.0
Developing Europe	3.6	7.2	5.2	5.2	2.4
Developing Americas	2.2	6.8	4.4	4.3	3.8

While Mexico is structurally converging to NAFTA zone economic performance standards, the rest of the developing Americas is positioned to record higher than average economic growth rates



NAFTA+ Zone Convergence – Economic Growth



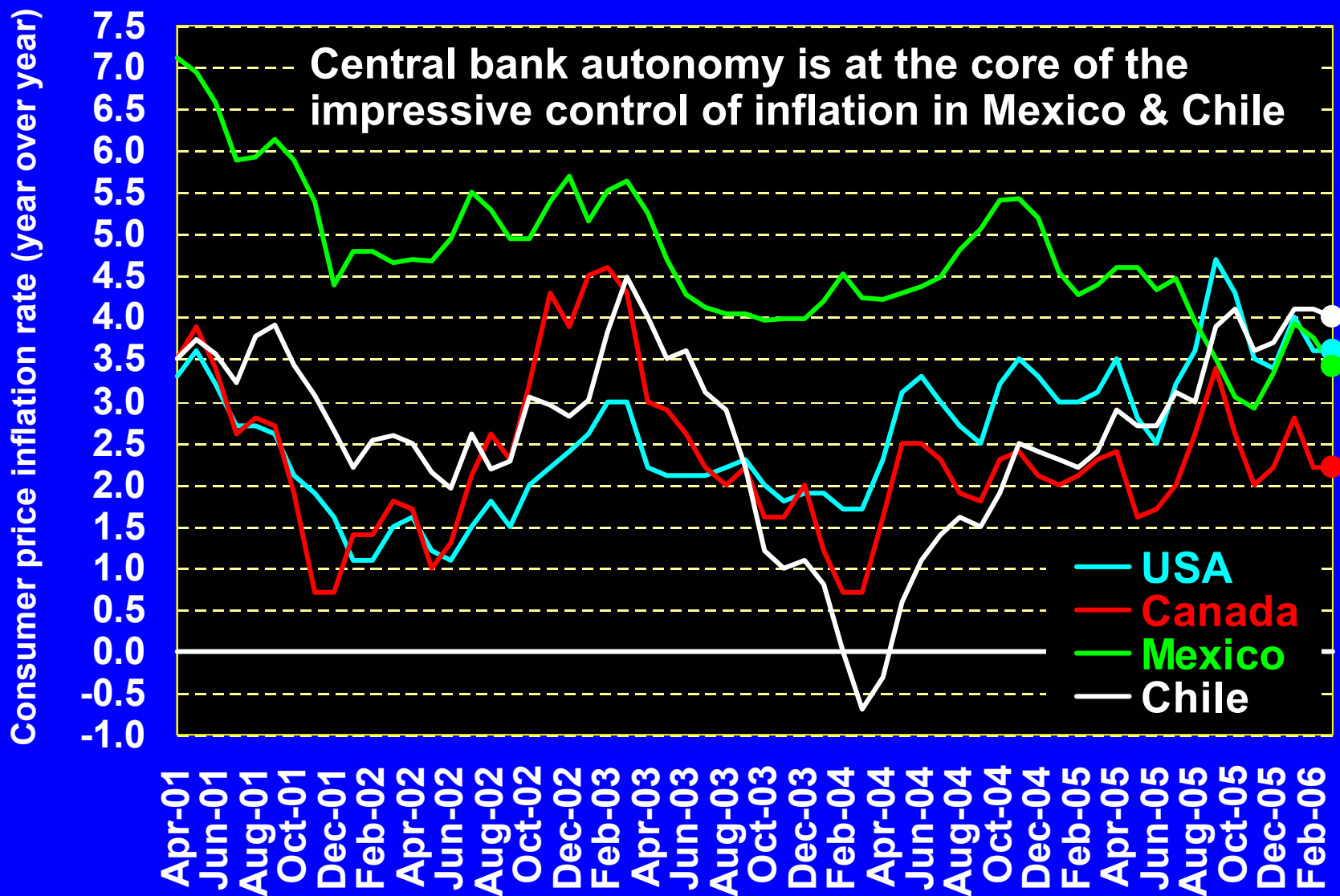
■ Canada
■ USA
■ Mexico
■ Chile



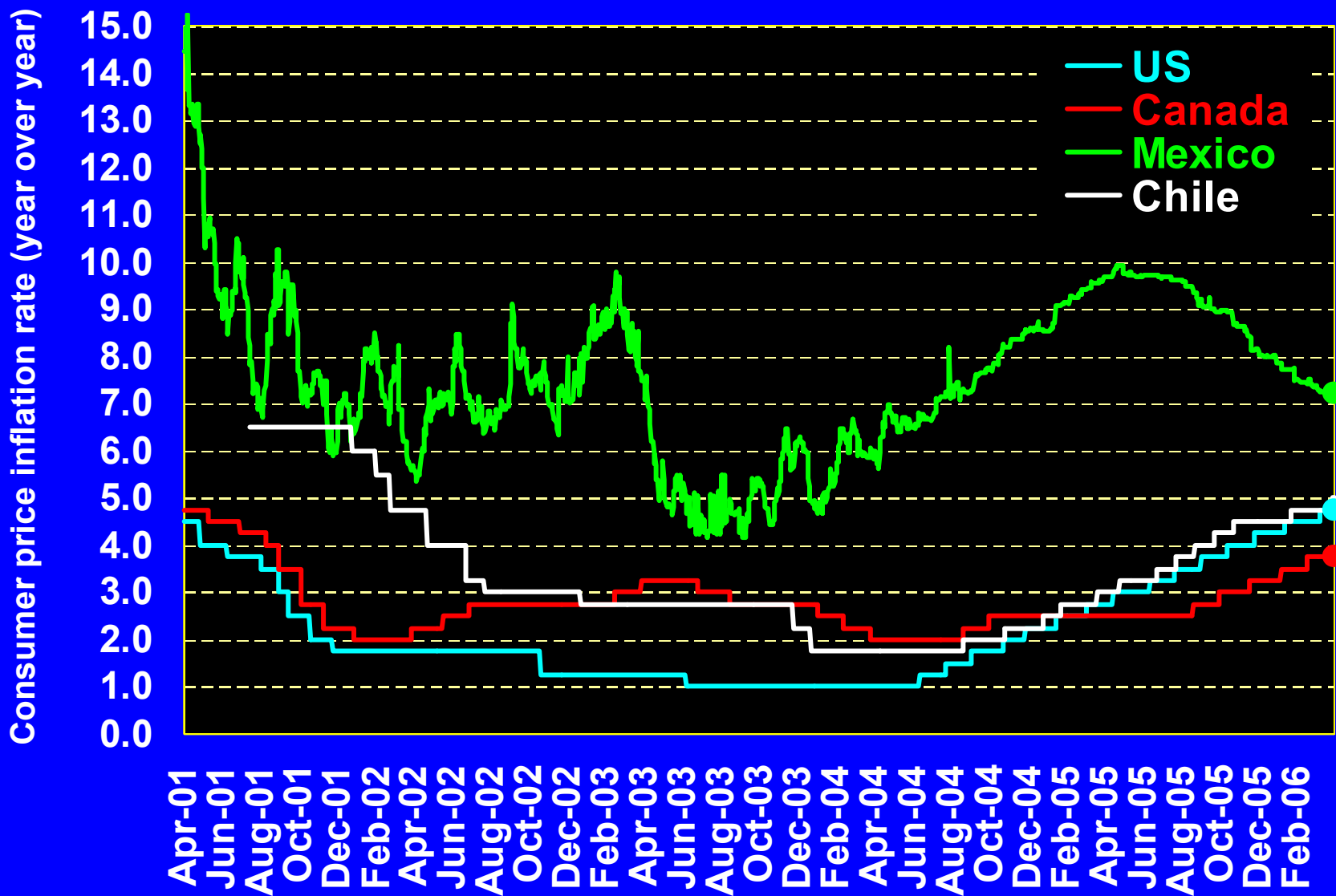
Americas-10 Consumer Price Inflation Trends

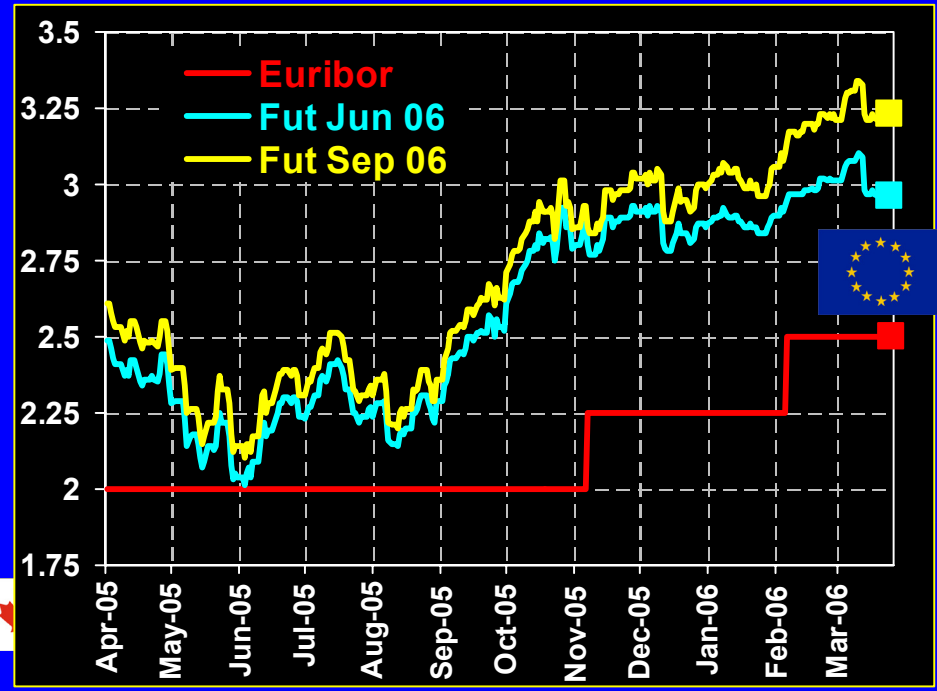
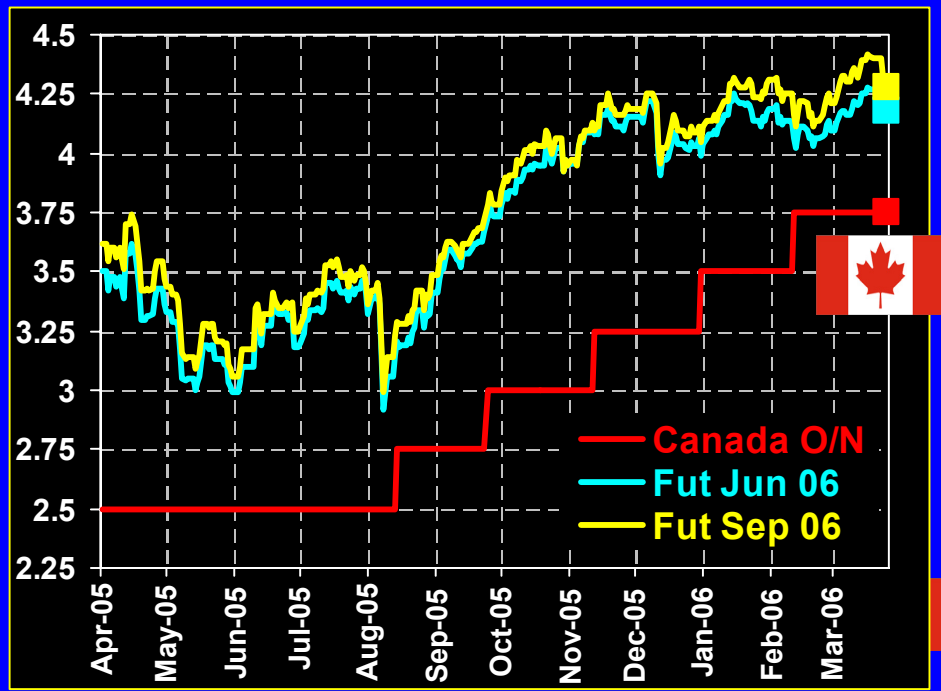
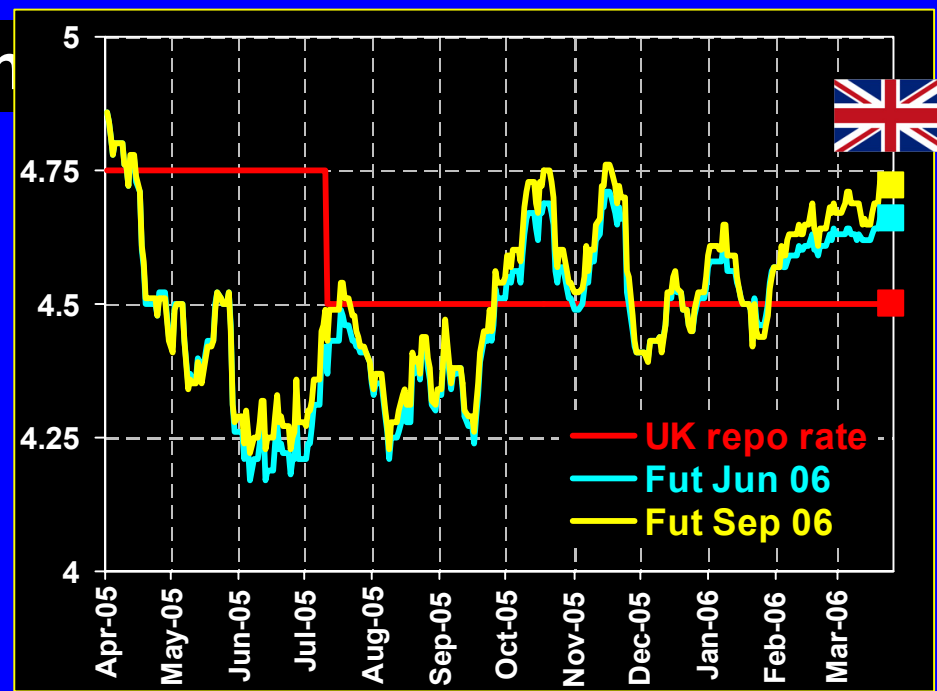
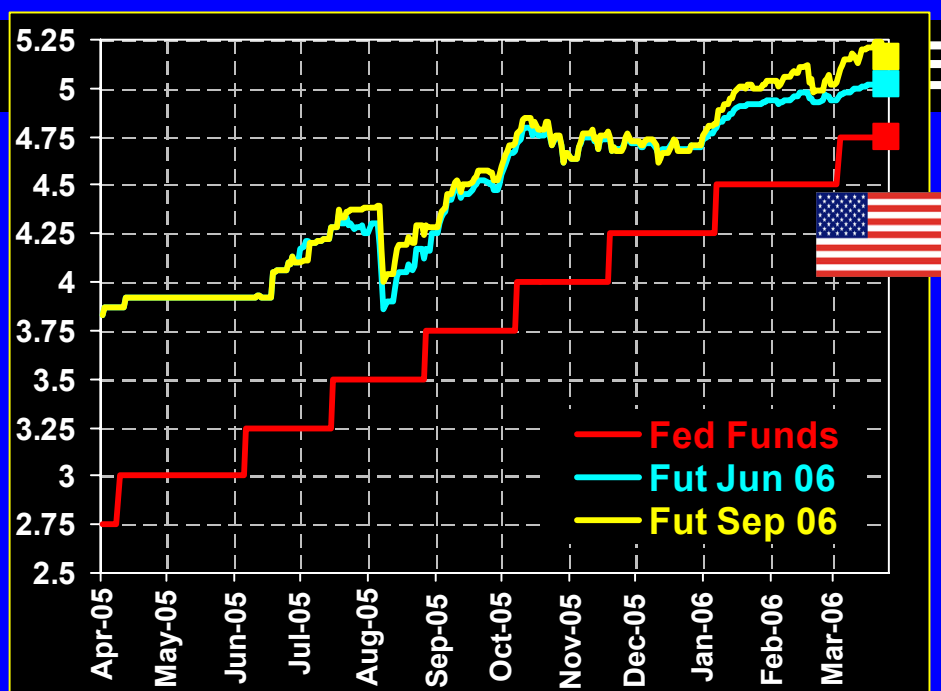


NAFTA+ Zone Convergence – Inflation

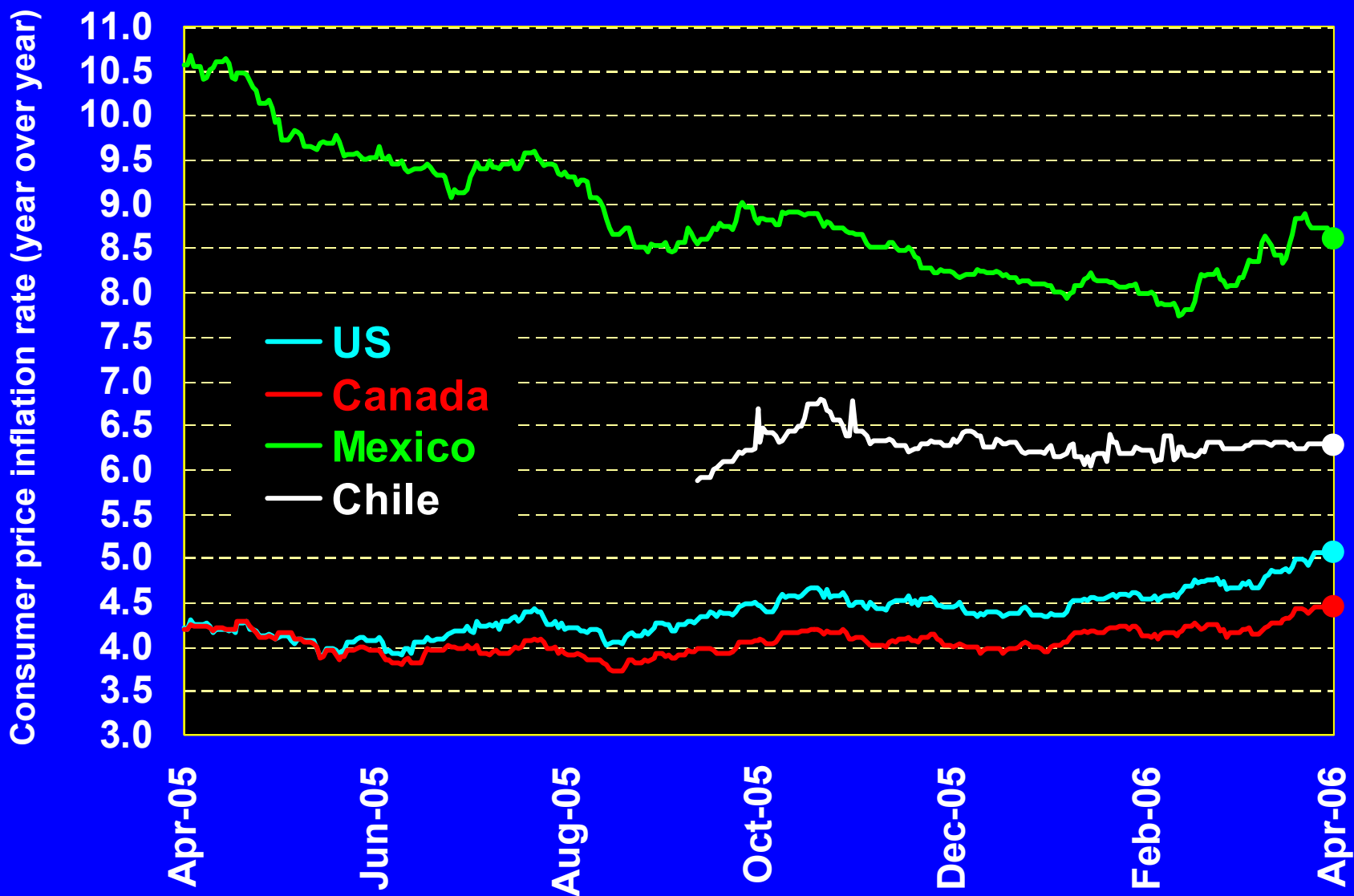


NAFTA+ Zone Convergence – Short-term Interest Rates

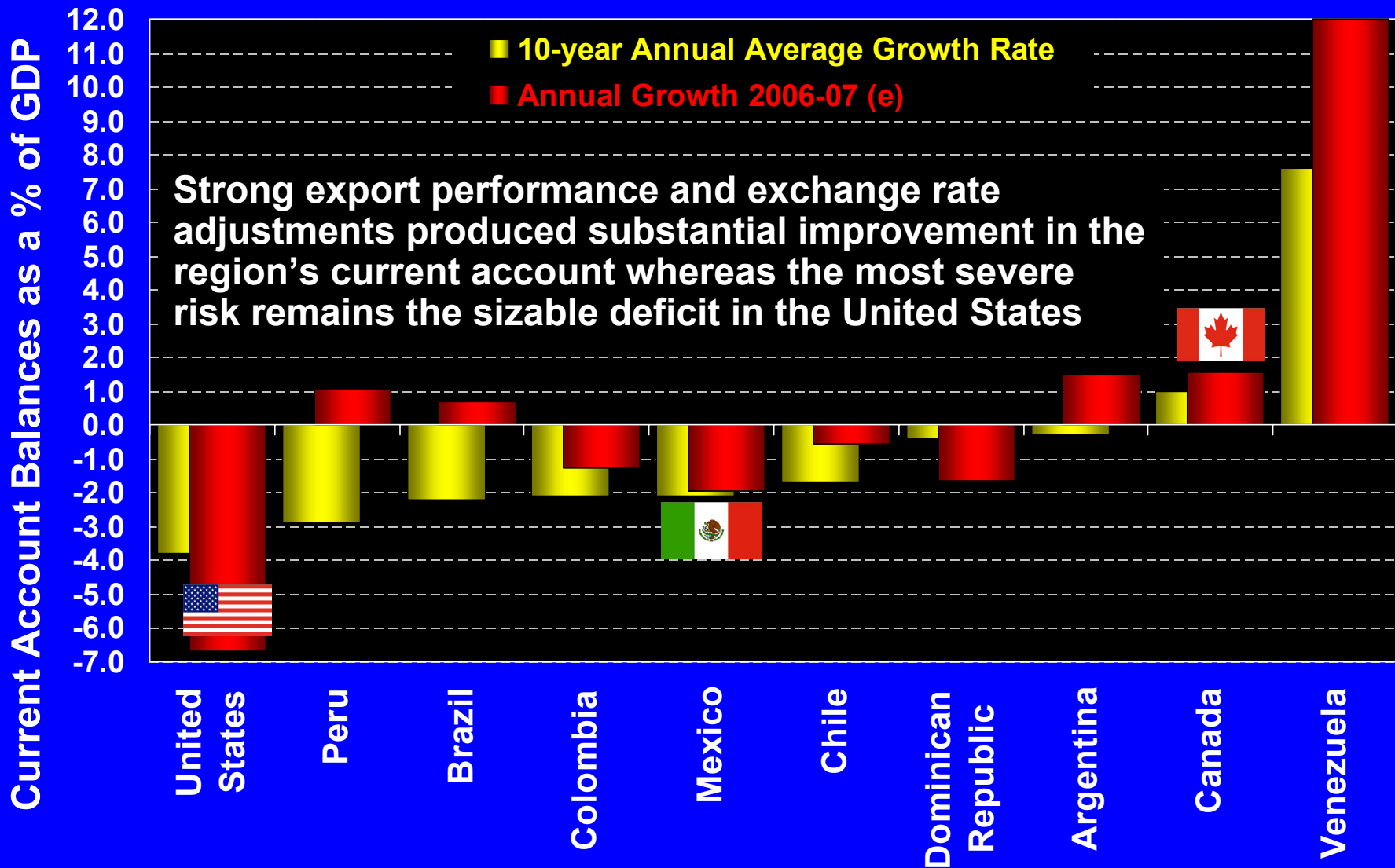


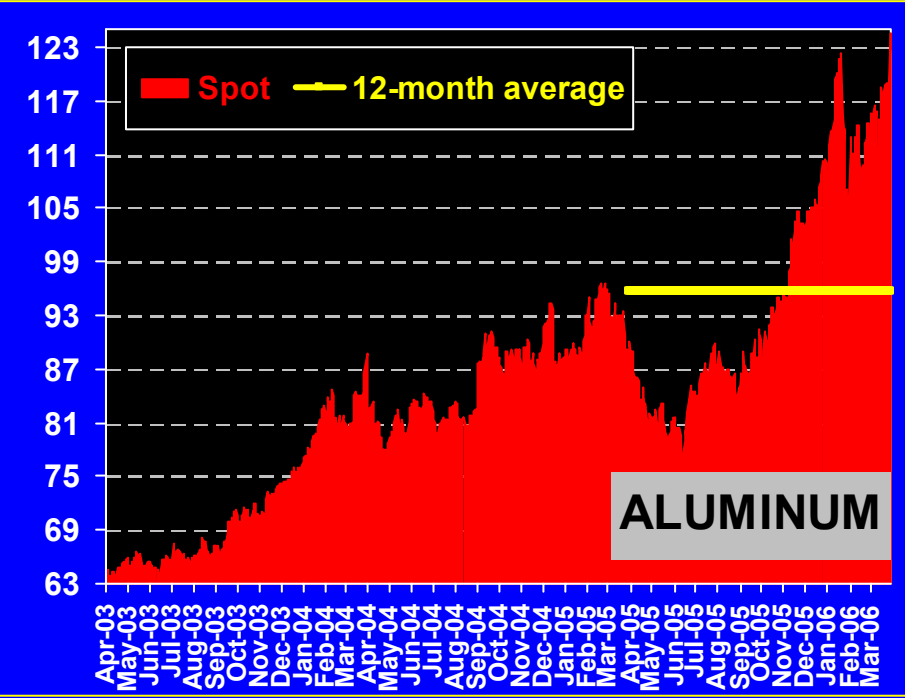
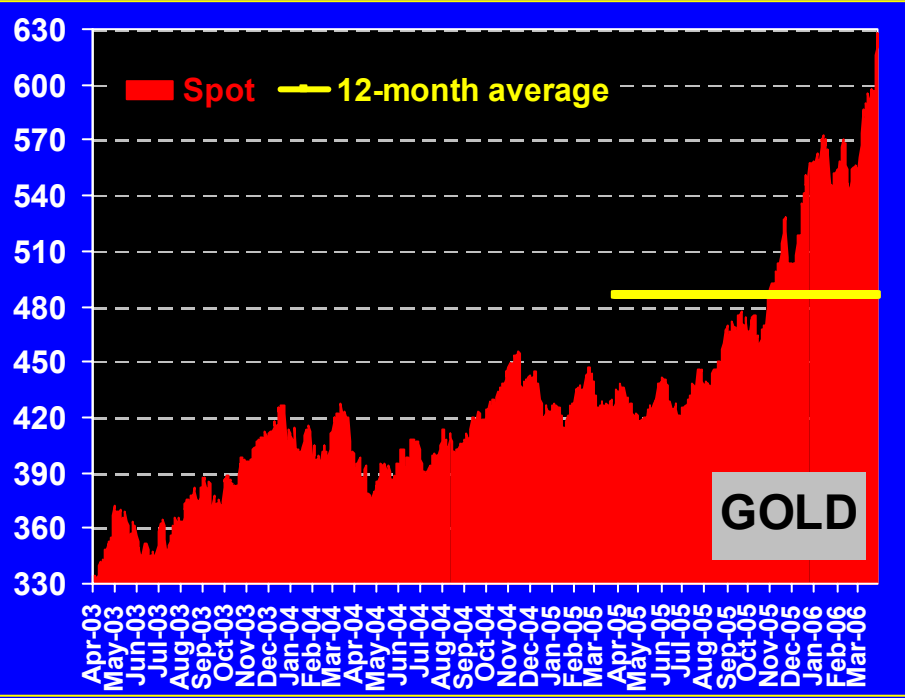
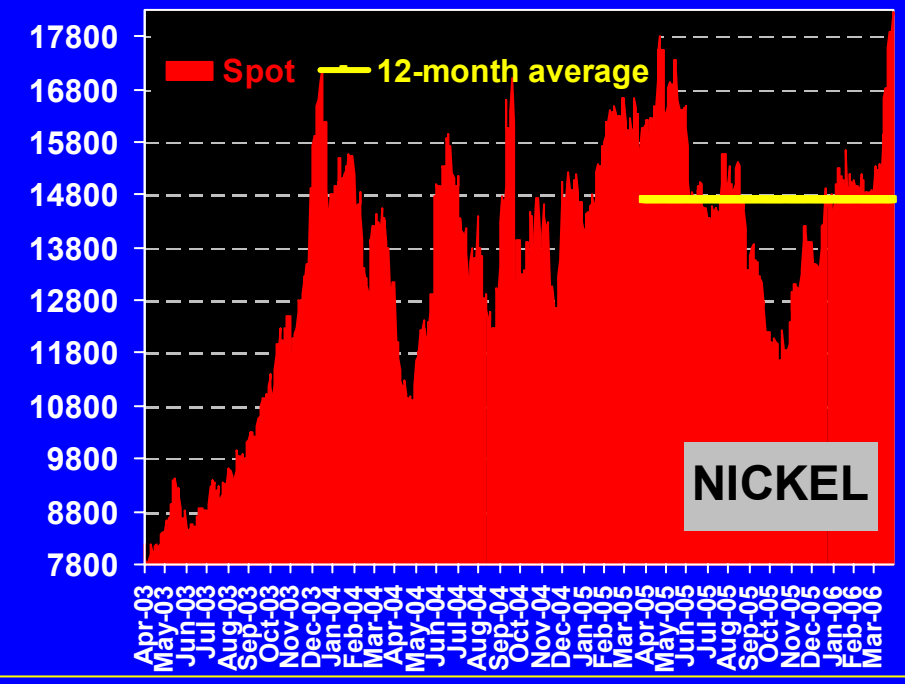
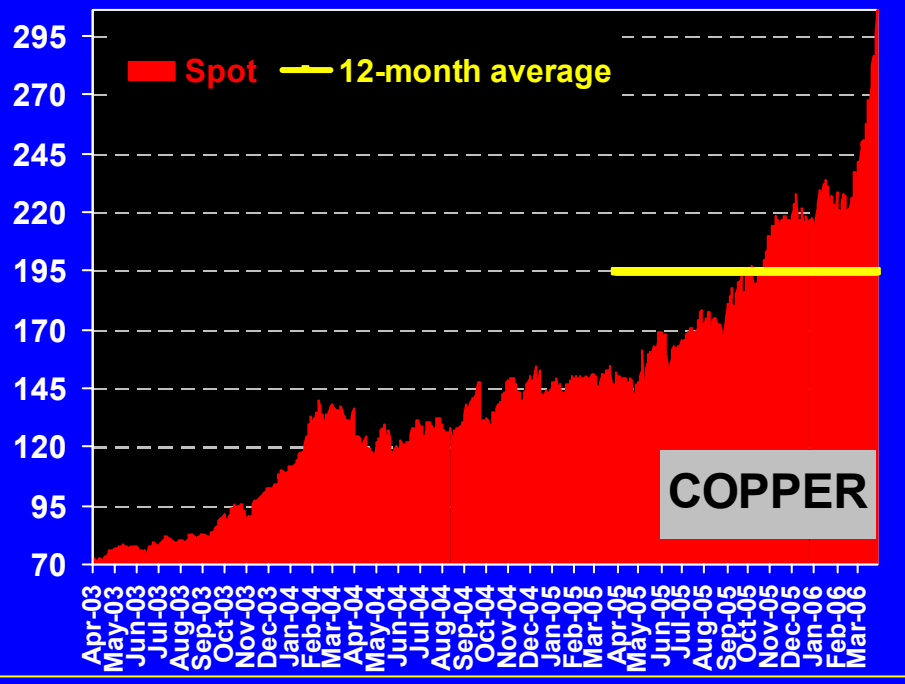


NAFTA+ Zone Convergence – Long-term Government Bond Yields

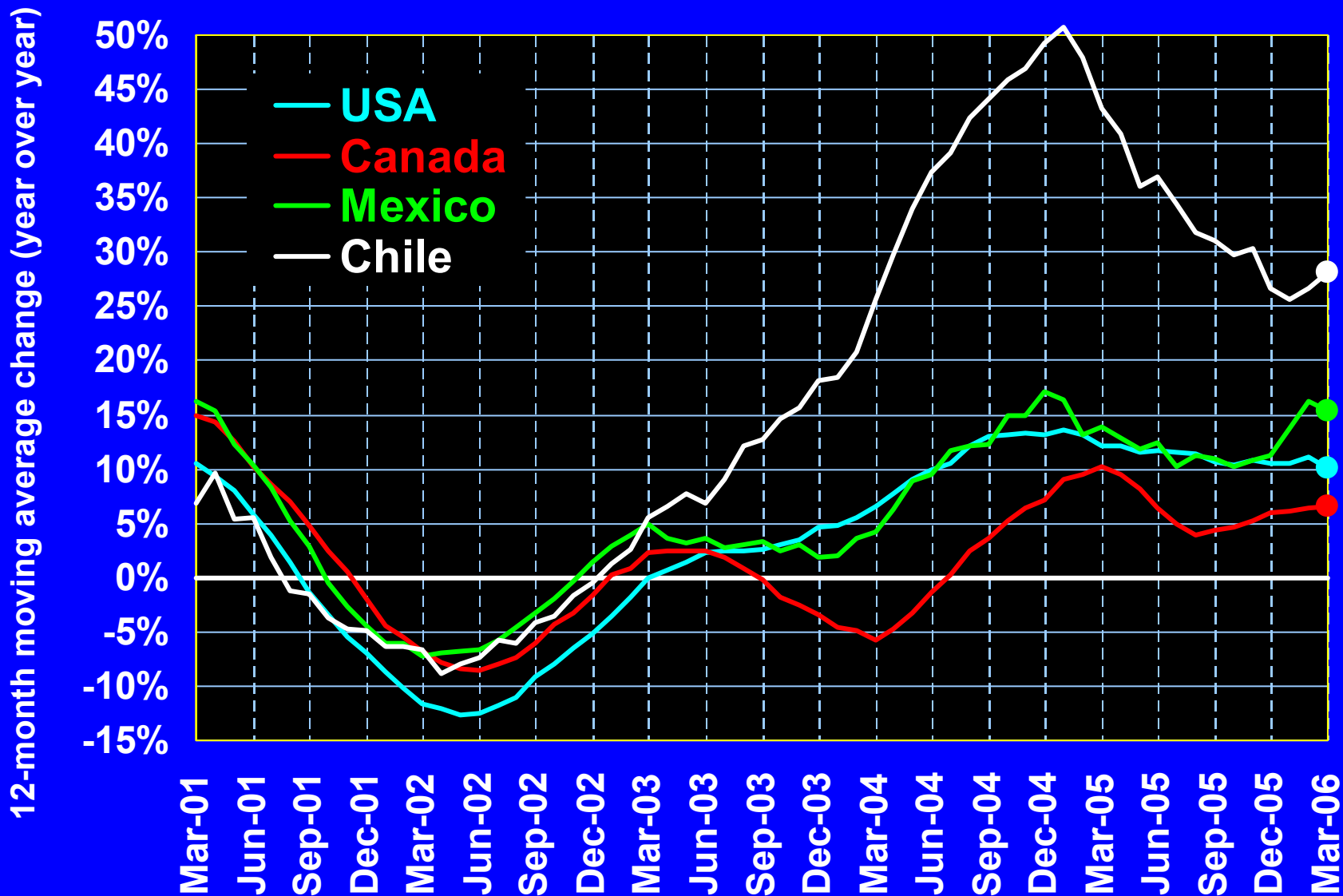


Americas-10 Current Account (Im)Balance

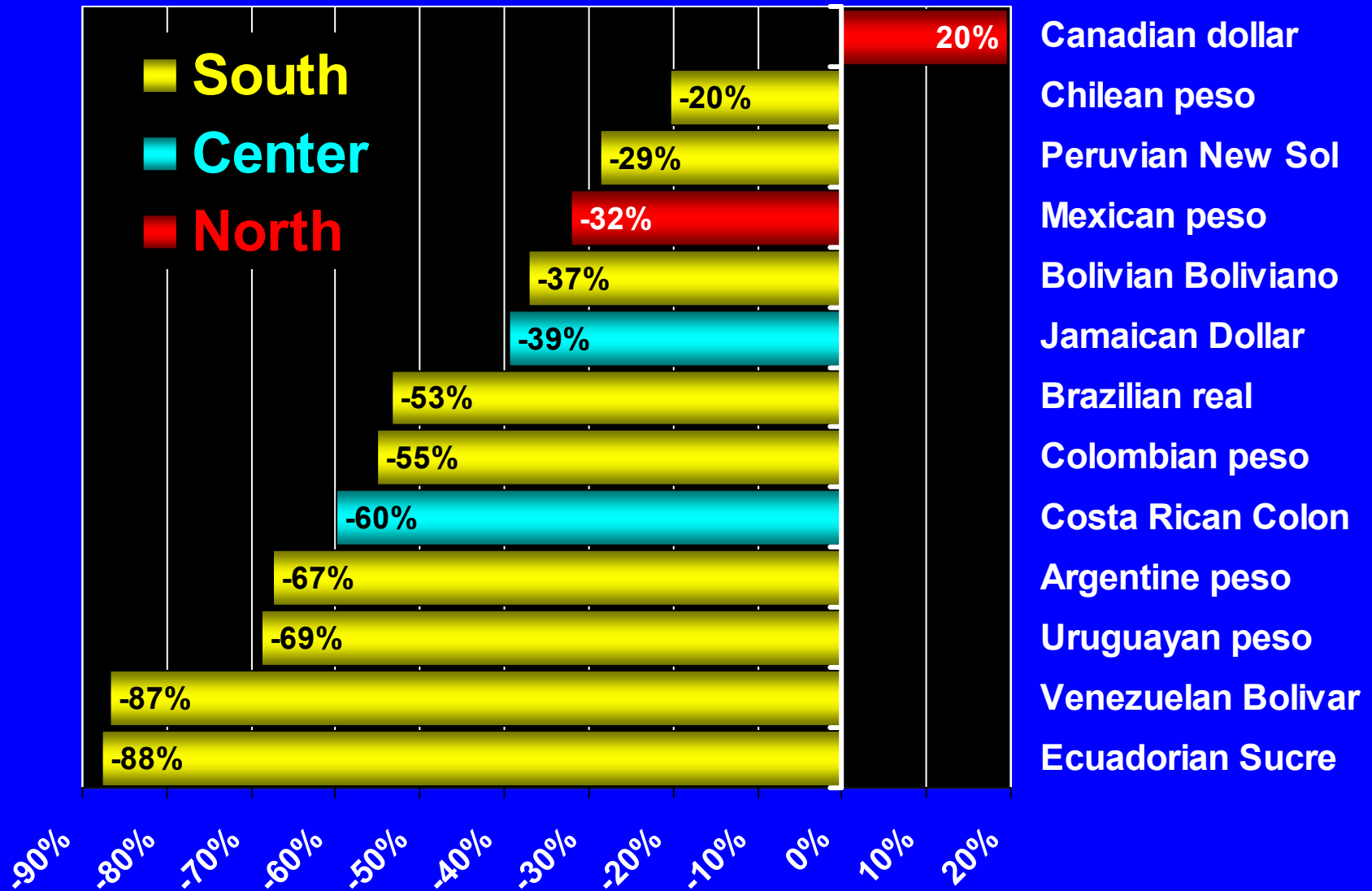




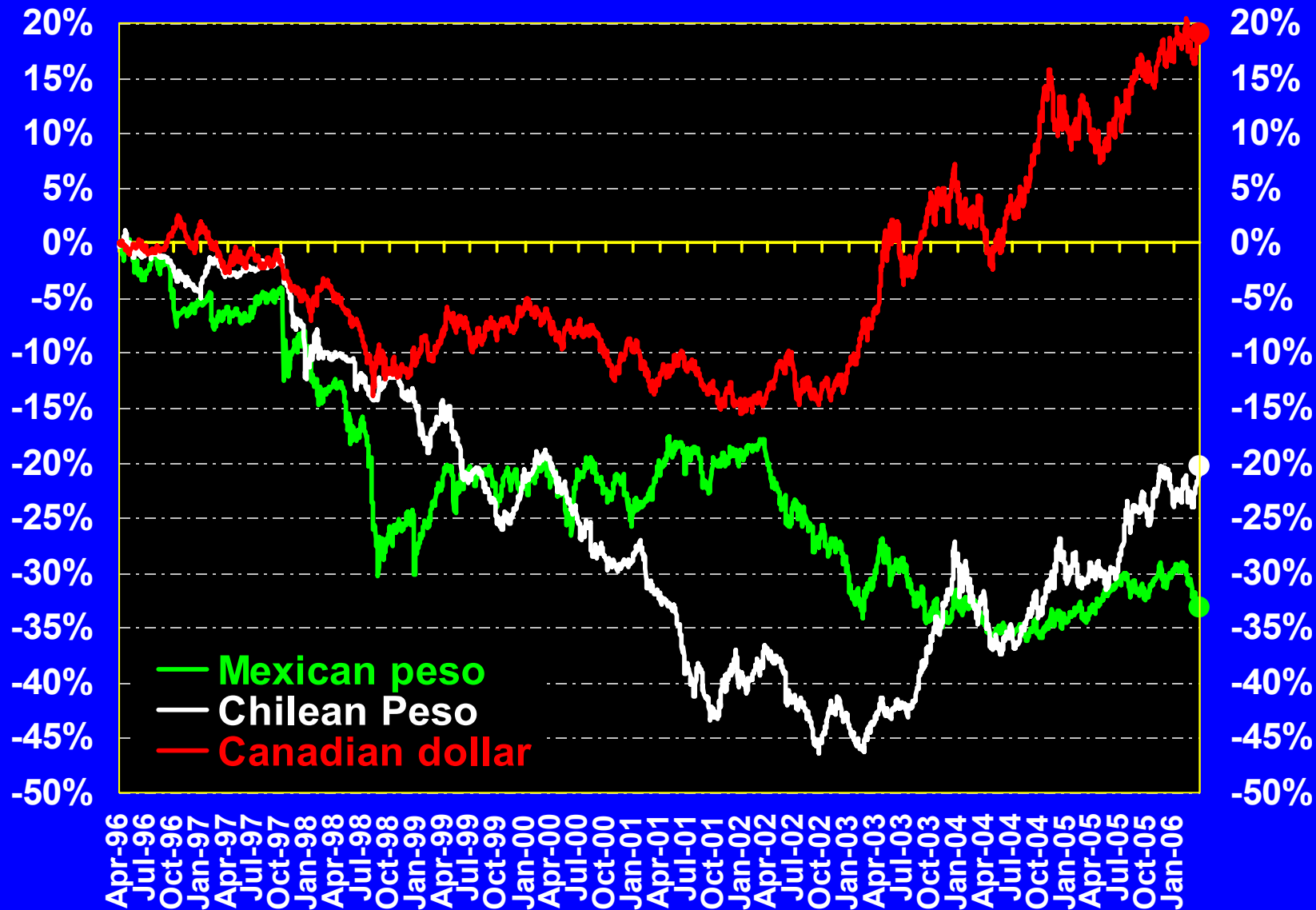
NAFTA+ Zone Convergence – Export Growth



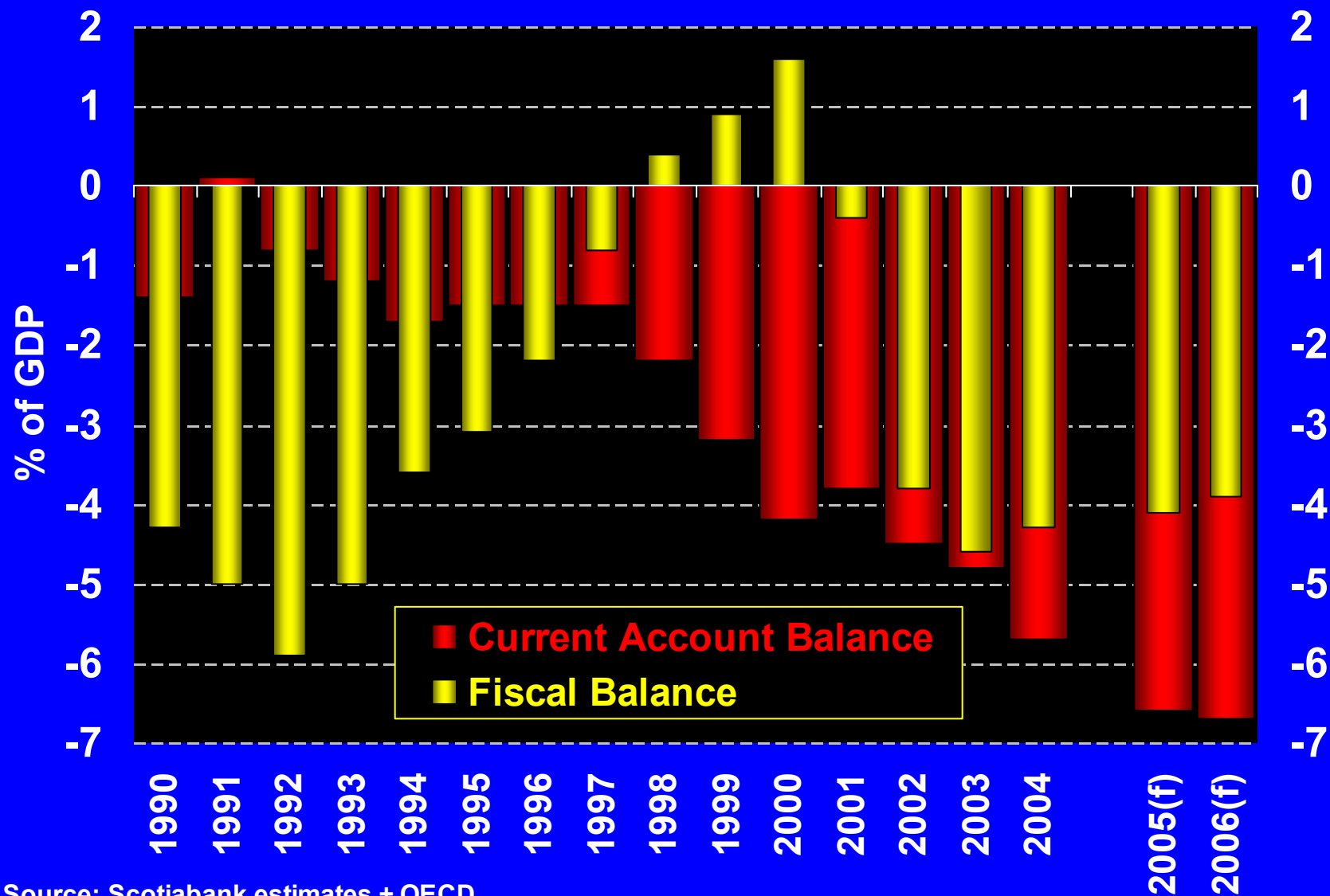
10-year FX Market Performance vs. USD (%) in the Americas



NAFTA+ Zone Convergence – Currency Performance



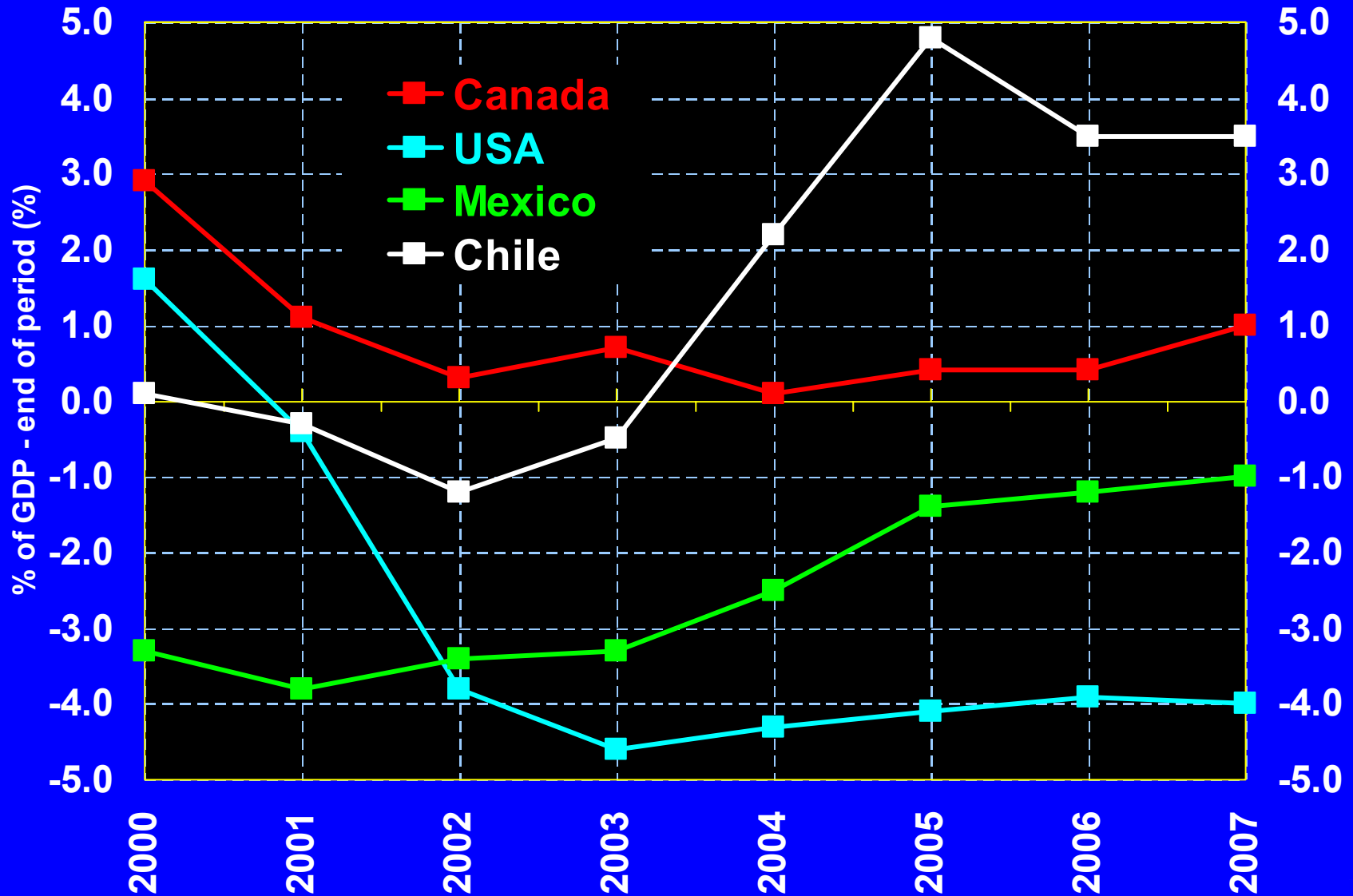
In search of a new Leverage Shock – USA Twin Deficits



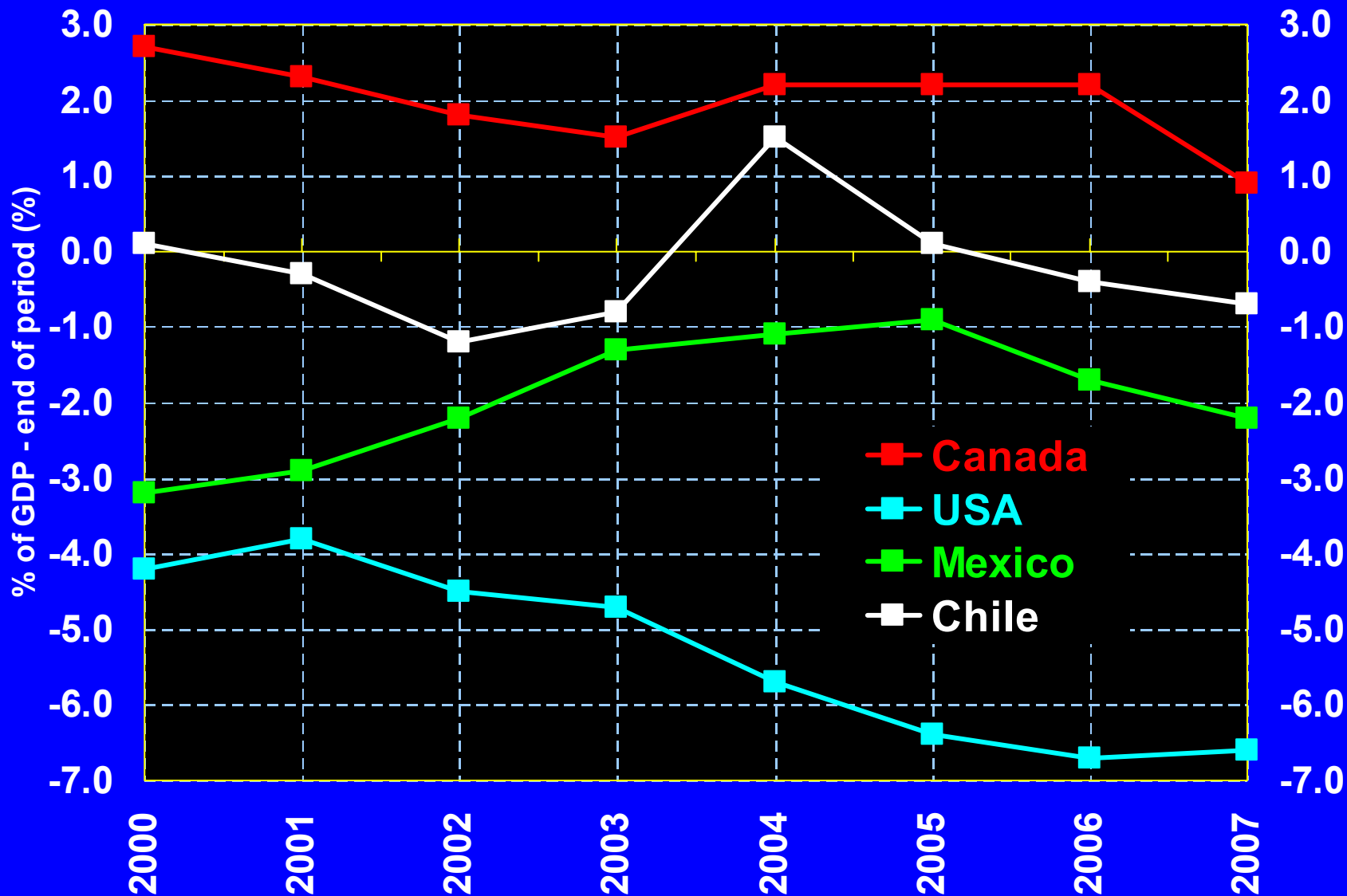
Source: Scotiabank estimates + OECD



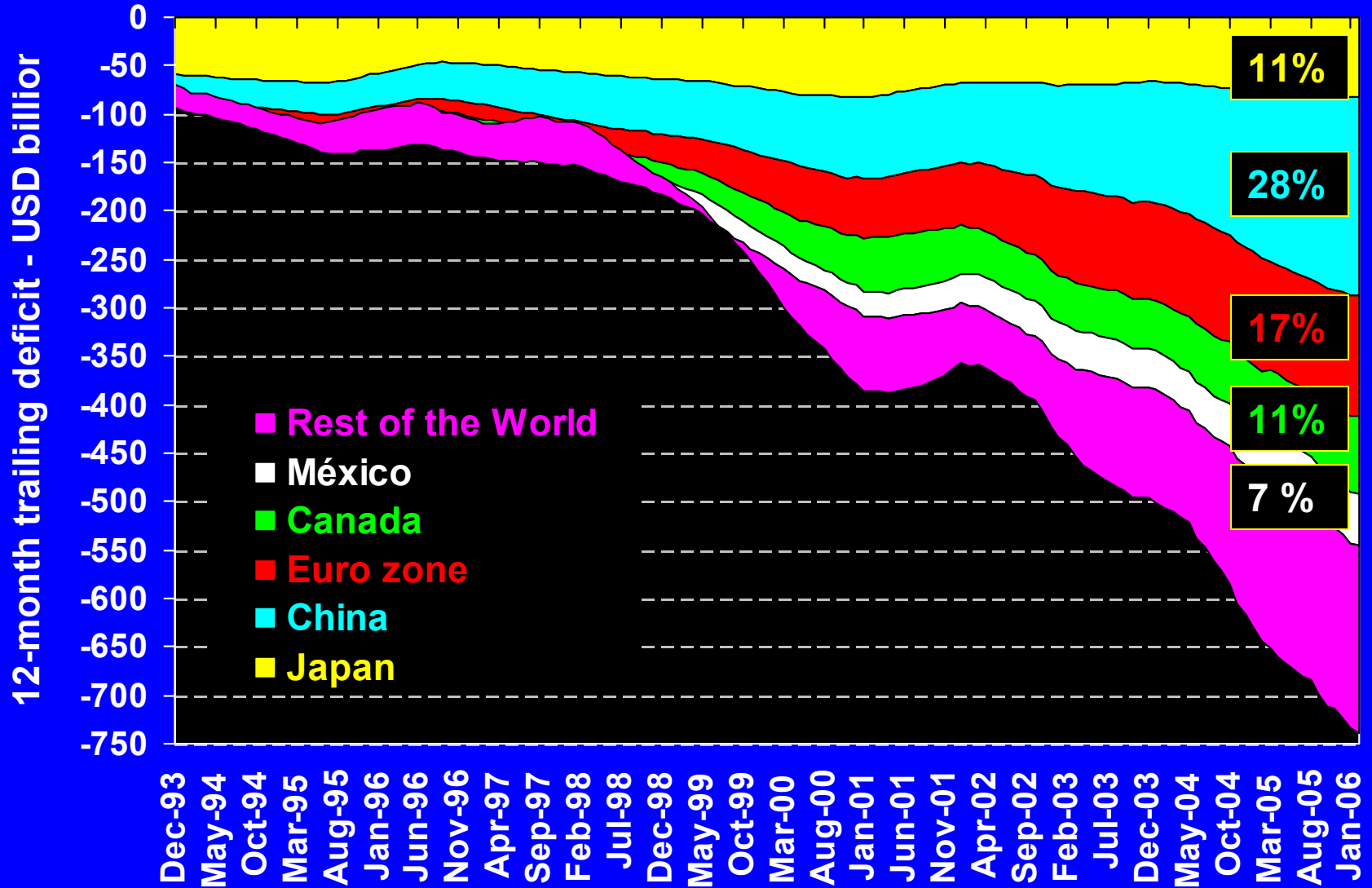
NAFTA+ Zone Convergence – Fiscal (im) Balance



NAFTA+ Zone Convergence – Current Account Balance



In Search of a USD Shock: Widening US Trade Deficit



A Glance at Global Issues & Uncertainties

- **Energy (In) Security in Global Leaders' Agenda**
- **The Euro & European Leadership Transition**
- **Multilateral Trade Liberalization under siege?**
- **Sustained, yet slowing, Global Economic Growth**
- **Growing US-China Economic Interdependence**
- **Housing Markets in the US & UK on Red Alert?**
- **Synchronized Global Monetary Tightening**
- **Intensifying US Debt Build-up: Defensive USD?**
- **Paced Refinement Of China's Currency Regime**
- **Persistent Global Equity Market Strength**
- **Emerging Debt/Equity Market Correction?**
- **Emergence Of A De-facto G12 Nations Group**

