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

Canadian Investment & Trade in Latin America: Obstacles & Opportunities

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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

Net Capital Flows to Emerging Market Economies

Source: Institute of International Finance Sep 2005

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Comparative Global Financial Sector Strength

Moody's Financial Strength Index

Jan-06
May-99

Chile
Hungary
South Africa
Mexico
Czech Republic
Poland
Brazil
India
Turkey
South Korea
Russia
China
Venezuela
Argentina

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Changing Leadership in South America
## Electoral Calendar in the developing Americas

<table>
<thead>
<tr>
<th>Country</th>
<th>Regional Elections</th>
<th>Congressional</th>
<th>Presidential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>HIGH</td>
<td>Oct-05</td>
<td>Mar-07/Oct-07</td>
</tr>
<tr>
<td>Bolivia</td>
<td>HIGH</td>
<td>Dec-05</td>
<td>Dec-05</td>
</tr>
<tr>
<td>Chile</td>
<td>LOW</td>
<td>Dec-05</td>
<td>Dec-05/Jan-06</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>LOW</td>
<td>Feb-06</td>
<td>Feb-06</td>
</tr>
<tr>
<td>Colombia</td>
<td>MEDIUM</td>
<td>Mar-06</td>
<td>May-06</td>
</tr>
<tr>
<td>Peru</td>
<td>HIGH</td>
<td>Apr-06</td>
<td>Apr-06/Jun-06</td>
</tr>
<tr>
<td>Dom. Rep.</td>
<td>LOW</td>
<td>May-06</td>
<td>Aug-06</td>
</tr>
<tr>
<td>Mexico</td>
<td>HIGH</td>
<td>Jul-06</td>
<td>Jul-06</td>
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<tr>
<td>Brazil</td>
<td>HIGH</td>
<td>Oct-06</td>
<td>Oct-06/Nov-06</td>
</tr>
<tr>
<td>Ecuador</td>
<td>HIGH</td>
<td>Oct-06</td>
<td>Oct-06</td>
</tr>
<tr>
<td>Venezuela</td>
<td>MEDIUM</td>
<td>Dec-05</td>
<td>Dec-06</td>
</tr>
</tbody>
</table>
Changing Leadership in Mexico

Felipe Calderón

Andres-Manuel López-Obrador

Roberto Madrazo

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Mexico has substantially outperformed its peer North American stock markets, increasing its vulnerability to a sudden asset price adjustment.
Core Latin America GDP (ppp-based)

Latin-8 GDP = US$4 trillion

Latin-8 GDP per Capita

Argentina
Chile
México
Brazil
Colombia
Dom. Rep
Venezuela
Perú

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## Latin America in Global Context ➤ Sustained Growth

<table>
<thead>
<tr>
<th>Economic Zone</th>
<th>95-04</th>
<th>2004</th>
<th>2005e</th>
<th>2006f</th>
<th>2007f</th>
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<tr>
<td>NAFTA zone</td>
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<td>4.1</td>
<td>3.5</td>
<td>3.3</td>
<td>2.8</td>
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<tr>
<td>Europe</td>
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<td>1.8</td>
<td>1.4</td>
<td>1.8</td>
<td>1.7</td>
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<tr>
<td>Japan</td>
<td>3.6</td>
<td>2.3</td>
<td>2.8</td>
<td>2.5</td>
<td>2.0</td>
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<tr>
<td>Developing Asia</td>
<td>5.5</td>
<td>6.6</td>
<td>7.1</td>
<td>6.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Developing Europe</td>
<td>3.6</td>
<td>7.2</td>
<td>5.2</td>
<td>5.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Developing Americas</td>
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<td>6.8</td>
<td>4.4</td>
<td>4.3</td>
<td>3.8</td>
</tr>
</tbody>
</table>
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

Annual average real GDP growth rate (%)

2000 2001 2002 2003 2004 2005 2006 2007

Canada
USA
Mexico
Chile

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The Region has achieved remarkable success in containing and reversing inflationary pressures. With the exception of Argentina, all countries will post lower rates of inflation in the years ahead.
Central bank autonomy is at the core of the impressive control of inflation in Mexico & Chile.
NAFTA+ Zone Convergence – Short-term Interest Rates

Consumer price inflation rate (year over year)

- US
- Canada
- Mexico
- Chile

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NAFTA+ Zone Convergence – Long-term Government Bond Yields

Consumer price inflation rate (year over year)

- US
- Canada
- Mexico
- Chile

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Current Account Balances as a % of GDP

Strong export performance and exchange rate adjustments produced substantial improvement in the region’s current account whereas the most severe risk remains the sizable deficit in the United States.
10-year FX Market Performance vs. USD (%) in the Americas

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In search of a new Leverage Shock – USA Twin Deficits

Source: Scotiabank estimates + OECD

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NAFTA+ Zone Convergence – Fiscal (im) Balance

Canada
USA
Mexico
Chile

% of GDP - end of period (%)

2000 2001 2002 2003 2004 2005 2006 2007

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In Search of a USD Shock: Widening US Trade Deficit

12-month trailing deficit - USD billion

-750 -700 -650 -600 -550 -500 -450 -400 -350 -300 -250 -200 -150 -100 -50  0


- Rest of the World
- México
- Canada
- Euro zone
- China
- Japan

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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