

TABLE OF CONTENTS

EXECUTIVE SUMMARY	xix
CHAPTER 1 LATIN AMERICA – SETTING THE SCENE	1
Political Renewal	3
Economic Renewal	3
Latin America's New Economic Model	3
Post-reform Performance and Challenges	5
Australia's Business Interests in Latin America	5
Latin American Regional Integration	7
Issues for Australia	8
Report Coverage	8
References	9
CHAPTER 2 LATIN AMERICA, EAST ASIA AND AUSTRALIA – COMPARISONS, COMPLEMENTARITIES AND COMPETITION	11
Economic Characteristics	12
Economic Size	12
Growth Performance	13
Lessons from and for East Asia	15
Australia's Trade with Latin America and East Asia	16
Trade Structure	18
Trade Openness	20
Distance	20
Preferential Trade Arrangements	21
Areas of Future Competition	22
FDI in Latin America and East Asia	23
Australia's Investment in Latin America and East Asia	24
FDI Regulations	25
Privatisation	25
Foreign Debt and Sovereign Risk	26
Key Areas of Complementarity and Competition	27
References	28

CHAPTER 3	BRAZIL'S ECONOMIC PERFORMANCE AND PROSPECTS	29
	Brazil's Structural Reforms	30
	Privatisation	30
	Market Deregulation	31
	The Real Plan	32
	Growth Performance over the 1990s	33
	Public Finances	35
	Fiscal Reforms	35
	Implications and Future Imperatives	36
	The Banking Sector	38
	Interest Rates and Interest Spreads	39
	Lending Growth	40
	Monetary Policy Reforms	41
	Savings and Investment	41
	External Sector	42
	Growing FDI Reduces External Vulnerability	42
	External Debt	43
	Other Key Impacts on Future Economic Performance	44
	Poverty	44
	The Need for Constitutional Reform	45
	The Size of the Informal Sector	45
	Openness and External Risks	46
	Energy Shortage	46
	Achievements and Prospects	47
	Risks	47
	References	48
 CHAPTER 4	 TRADE AND INVESTMENT OPPORTUNITIES IN BRAZIL	 51
	Export and Import Growth Patterns	52
	Key Drivers of Import Trends	53
	Trade Policy Reform	53
	Macroeconomic Trends	55
	Privatisation	55
	Major Merchandise Import Trends	55
	ETM Imports	55
	STM Imports	57
	Primary Imports	57
	Major Import Sources	58
	Trends in Australian Exports to Brazil	58
	Trends in Primary Products	59
	Trends in Manufactures Exports	60
	FDI Reforms, Direction and Trends	61
	FDI Liberalisation	61
	FDI Flows	62

Source Countries for FDI	64
Australia's Investment in Brazil	65
Trade and Investment Opportunities in Brazil	66
Mining	66
Agriculture	66
Processed Food	68
ETMs	68
Infrastructure	72
Services	73
Looking Forward	77
References	78
 CHAPTER 5	
MEXICO'S ECONOMIC PERFORMANCE AND PROSPECTS	81
Mexico's Economy Opens Up	82
Trade and Investment Liberalisation	82
Privatisation	83
Deregulation	85
Crisis Vulnerability and the External Sector	85
Current Exchange Rate Policy	85
Reduced Current and Capital Account Vulnerability	86
External Debt Low Compared to Other Emerging Markets	88
Economic Performance in the 1990s	90
Inflation Outcomes	91
Public Finances	92
Fiscal Balance and Fiscal Debt	92
Expenditure	93
Revenue	93
Necessary Fiscal Reform	94
Banking Sector Developments	96
Early Reforms	96
Mexican Crisis Banking Survival Measures	96
Recent Financial Sector Reforms	96
Bank Lending and Interest Rates	97
Capital Markets	98
Equity Markets	99
Bond Markets	99
Pension Reform	100
Achievements and Prospects	100
References	101

CHAPTER 6	TRADE AND INVESTMENT OPPORTUNITIES IN MEXICO	103
	Export and Import Growth Patterns	104
	Key Drivers of Import Trends	104
	Bilateral Trade Agreements	106
	Maquiladora Industry Growth	106
	Multilateral Trade Liberalisation	107
	Major Merchandise Import Trends	108
	ETMs	108
	STM Imports	109
	Primary Imports	111
	Major Import Sources	111
	Trends in Australian Exports to Mexico	113
	Primary Product Exports	113
	Trends in Manufactures	115
	FDI Reforms, Direction and Trends	115
	FDI Liberalisation	116
	FTAs	116
	FDI Flows	116
	Source Countries for FDI	117
	FDI by Sector	117
	Australia's Investment in Mexico	119
	Trade and Investment Opportunities in Mexico	120
	Mining	121
	Energy	121
	Agriculture and Agribusiness	122
	Processed Food	123
	STMs	124
	ETMs	124
	Private Infrastructure	124
	Services	125
	Looking Forward	125
	References	126
 CHAPTER 7	 ARGENTINA'S ECONOMIC PERFORMANCE AND PROSPECTS	 129
	Growth Performance in the 1990s	130
	Switching Growth Sources	131
	Income Distribution	132
	Vulnerability to External Shocks	132
	Current Account	132
	Capital Account	134
	External Debt	134

The Convertibility Plan	137
Reduced Inflation	138
Reduced Interest Rates	138
Current Issues with Convertibility	139
Privatisation and Deregulation	140
Privatisation	140
Deregulation	142
Fiscal Policy	142
Debt Restructuring	143
Public Deficit	143
Financial and Banking Sector	147
Further Directions and Challenges	150
Argentina's Future Growth Prospects	151
Recent Policy Changes	151
Priorities for Further Reform	152
Risks and Prospects	153
References	154

CHAPTER 8	TRADE AND INVESTMENT OPPORTUNITIES IN ARGENTINA	157
Trade Policy and Trade Structure over the 1990s		158
Changing Trade Policy		158
Impact on Trade Flows		161
Import Structure and Trends		162
Sources of Argentine Imports		165
Trade in Services		166
Services Imports		166
Australia's Merchandise Trade with Argentina		167
Top Imports of Primary Goods		168
Manufactured Exports		169
Export Opportunities for Australia		171
FDI in Argentina		174
Contribution of FDI and Sectoral Distribution		175
Sectoral Distribution of FDI		176
Distribution of FDI by Country		178
Australia's Investment Presence and Prospects		178
Dynamics and Composition of Australian FDI		180
Investment Opportunities		180
Conclusion		182
References		183

CHAPTER 9	CHILE'S ECONOMIC PERFORMANCE AND PROSPECTS	185
	Chile Reformed Early	186
	Key Reforms in Place by the 1990s	186
	Economic and Social Outcomes	188
	Economic Performance over the 1990s	188
	Economic Growth Strong	188
	Sectoral Growth Performance	189
	Inflation Falls Steadily	190
	Chile's International Capital Use	191
	Current Account	191
	Capital Flows	192
	External Debt	193
	Public Finances Remain Strong	194
	Revenue	194
	Expenditure	195
	Budget Balance	196
	Privatisation and Infrastructure	196
	Early Privatisation Efforts	196
	Later Privatisation Efforts	197
	Future Privatisation Plans	197
	Financial Sector and Capital Market Developments	197
	Early Reforms and Performance of the Financial Sector	197
	Financial Sector Performance and Reforms in the 1990s	198
	Growth of Pension Funds	200
	Capital Markets	200
	Other Key Issues for Future Performance	201
	Poverty and Income Distribution	201
	Ensuring Electricity Supply	202
	Achievements and Prospects	202
	References	203
 CHAPTER 10	 TRADE AND INVESTMENT OPPORTUNITIES IN CHILE	 205
	Chilean Trade Policy	206
	Unilateral Liberalisation	206
	Participating in Multilateral Trade Negotiations	206
	Negotiated Market Opening	206
	Export and Import Growth Patterns	208
	Exports	208
	Key Drivers of Import Trends	210
	Import Structure and Sources	211
	Major Merchandise Imports	212
	Main Sources of Imports	214

CHAPTER 11 LATIN AMERICAN BUSINESS ENVIRONMENT 233

PAGE xv

CHAPTER 12	REGIONAL ECONOMIC INTEGRATION	259
	Rationale for Latin American Integration	260
	Overview of Regional Preferential	
	Trading and Integration Agreements	261
	NAFTA	265
	Trade in Goods	265
	Trade in Services and FDI	266
	New Institutions	267
	NAFTA Evaluation	267
	Mercosur	269
	Mercosur Achievements	269
	New Members?	270
	Mercosur and Democracy	271
	Mercosur and Macroeconomic Cooperation	271
	Mercosur Evaluation	271
	Prospective Mercosur Initiatives	273
	The Free Trade Area of the Americas Proposal	273
	Specific Issues: FDI and Services	275
	FDI	275
	Services	275
	Implications for Australia	276
	Future Trends	277
	References	278
	Appendix 1	280
 CHAPTER 13	 IMPLICATIONS	 283
	Economic Prospects	284
	Implications for Government	284
	Business Implications	286
	Prospects	287
 INFORMATION FOR BUSINESS		 289
 ALSO BY THE EAST ASIA ANALYTICAL UNIT		 293