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Readiness Indicators for Latin America and the Caribbean

The FTAA negotiations should help reinforce the ongoing process of economic integration in the Western Hemisphere, but the success of the trade initiative depends importantly on efforts underway throughout the hemisphere to sustain and augment domestic economic reforms initiated over the past decade. Without continued progress in these *domestic* initiatives, most countries in Latin America and the Caribbean (LAC) will have difficulty in adhering to, much less implementing, obligations of a hemisphere-wide free trade agreement. In other words, countries must do their homework if they are to pass the FTAA test.

Why is the continuation of domestic economic reforms so important? Bluntly put, it is a critical economic response to the globalization of economic activity. Countries can no longer afford to protect their industries from foreign competition; the world will simply pass them by.[1] Countries must now adapt quickly to changing conditions in world markets or fall sharply behind in the global competition for market share and investment resources. Integration arrangements like the FTAA must be part of the development strategy of countries in Latin America and the Caribbean to promote economic growth and higher standards of living for all their people.

Barbara Kotschwar helped draft this chapter and compile the tables.

1. Even temporary protection via safeguard measures such as Section 201 of US trade law may be counterproductive if not conditioned on industrial restructuring during the period of import relief.

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To be sure, as countries engage in economic integration initiatives, local industries will face heightened competition from foreign firms that both export to and invest in their home market. Such competition is beneficial; it can spur innovation and productivity growth and push local firms to shape up to maintain market share. Some will need to produce more efficiently; others will need to restructure their operations and possibly enter into corporate alliances. Domestic economic policies should both promote these competitive forces and help mitigate the adverse effects of the resulting adjustments on firms, workers, and communities.

The ongoing FTAA negotiations add urgency to the domestic economic reform agenda but also provide instruction on what needs to be done at home to meet prospective FTAA requirements. For participating countries, trade barriers must be significantly reduced or eliminated within a decade or so; government administration must be modernized so that implementation of regulatory policies is transparent; and economic policies must be designed to strengthen and ensure competition and the rule of law in the domestic marketplace. To meet these challenges, national officials must accelerate the pace of reform while managing adjustment to new trade initiatives and rapidly changing global market conditions. Sustaining public support for these policies will be a critical test of each country's willingness and ability to meet the obligations of a reciprocal free trade agreement.

To help gauge the flexibility of economies to meet the challenges of globalization and integration initiatives, Hufbauer and Schott (1994) developed a set of readiness indicators in their study, *Western Hemisphere Economic Integration*. The readiness indicators were designed to guide policymakers in managing both economically and politically the restructuring of their economy that would inevitably result from more open competition with foreign suppliers. As demonstrated by recent problems in Ecuador and the backlash against reforms in Venezuela in the early 1990s, if economic reforms create adjustment burdens that the political process cannot accommodate, the policies are unlikely to be sustained.

Though the indicators are a benchmark for gauging relative economic performance with potential free trade partners, they do not assess entry criteria for such arrangements. Each country must determine in the course of the negotiations the commitments it can undertake and implement over an agreed transition period. The readiness indicators provide a useful tool for that self-examination.

This chapter updates the indicators published in July 1994 to reflect recent economic data and policy developments. These new indices better address factors that underpin the ability of countries to open their markets to foreign competition. Data are provided on economic activity in the 32 developing countries participating in the FTAA process.[2] Revisions en-

2. The indicators are based on the best data available as of early 2001. The data sources for each indicator are provided in the tables at the end of this chapter.

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compass both additional indices (e.g., gross national savings) and data sources (particularly regarding policy sustainability), reflecting comments received from academics and government and business officials since the publication of the original Institute indicators.

About the Readiness Indicators

The readiness indicators comprise a series of macroeconomic and microeconomic variables that, in the aggregate, provide a broad picture of economic conditions in each country. To be sure, these statistics do not convey the complex developments unique to each country that affect economic performance, but they do provide a solid factual base for economic analysis and for cross-country comparisons. In brief, the readiness indicators tell a simple yet important story of the capacity of a country to compete in the global marketplace.

The macroeconomic indicators cover price stability, budget discipline, national savings, external debt, and exchange rate stability. Modest inflation and public sector deficits and manageable debt-servicing burdens are traditional signposts of economic well–being; real currency stability is an important element of a healthy investment climate. We have added gross national savings to our original list of indicators to help analyze the extent to which a country is dependent on foreign funds, and in particular the extent to which domestic policies are vulnerable to fluctuations in short-term capital flows.

The microeconomic indicators examine the central government's reliance on market-oriented policies and on trade taxes for its current tax revenue. In many Latin American countries, a history of statism and government intervention in the marketplace—and the threat of its revival—still casts a shadow over economic policies and prospects. Market-oriented policies help dispel those concerns by reducing government participation in commercial activities that too often in the past favored political rather than economic objectives. Judging progress in this area is admittedly subjective, but wherever possible we have tried to quantify progress made in each country in reducing tariff and nontariff barriers to trade as well as privatization and deregulation of important sectors of the economy. In that regard, our indicator measures what has already been achieved, not what is proposed. For example, important privatization ventures currently being vetted are not yet reflected in the scores.

The trade taxes indicator presents major challenges for many LAC countries, especially those that are smaller and more trade-dependent. For many countries, tax reform is a necessary complement to trade liberalization because government revenues rely heavily on import levies and other trade taxes. Fiscal reforms, which underpin a successful development strategy, are often necessary to broaden the tax base and provide

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greater incentives to savings and investment in the economy. In calculating this indicator, we have been careful not to include one-time privatization proceeds that may cause wide swings in the revenue stream from year to year; such transactions should be regarded as an exchange of assets that in most instances should not be diverted to current expenditures.

Finally, we include a hybrid indicator, "policy sustainability," to measure the ability of the domestic political process to allocate the gains from trade so as to maintain support for economic reforms. This indicator combines both an index of political rights and civil liberties based on Freedom House rankings, and an index that measures health, education, and per capita income based on the United Nations Human Development Index.[3] The first component seeks to evaluate how freely citizens participate in the political process and can promote ideas and institutions independent of the state. The second component assesses social welfare based on measures of life expectancy, adult literacy and school enrollment, and individual income. To be sure, these indices are imperfect proxies for measures of governance and the rule of law. However, they do capture important political and social developments that influence the political process in each country.

Policy sustainability is in many respects the most important indicator, since it seeks to gauge the durability of domestic economic reforms. Over time, continued support for economic reforms will depend on whether the average worker receives tangible benefits—improved living standards and freer participation in the political process.[4] These factors in turn enhance the attractiveness of an economy to international investment, which makes an important contribution to the virtuous cycle of reform and economic development.

While our readiness indicators canvass a broad range of economic activities, they have two notable limitations. First, they do not factor in the state of the economic infrastructure (roads, rail, ports, telecommunications, etc.), except to the extent that countries have privatized state-owned enterprises and attracted foreign capital to help build national or transnational transport, energy, and telecommunications networks. Although the indicators do not fully capture infrastructure constraints, the ability to expand economic infrastructure depends greatly on stable macroeconomic conditions and on market-oriented policies, which are encompassed by other indicators.

3. The methodology used to construct these indices is set out in Freedom House (1997) and UNDP (2000). The policy sustainability indicator gives equal weight to the UN index and the average of the Freedom House rankings.

4. That is why strengthening democracy in Latin America is a core objective of the summit process and critical to the success of the FTAA. It gives citizens a voice in determining the content and pace of reforms, which in turn should help promote public acceptance of the new free trade regime.

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Second, the indicators do not address the so-called "second generation" of reforms needed to consolidate the political and economic gains of the past decade and to distribute them more equitably.[5] Such reforms aim to strengthen the rule of law and improve the administration of national policies—in other words, to make government more open and transparent, and thus more accountable to its citizens. These reforms help spread the wealth generated by the market-oriented policies of the first generation of reforms more broadly to citizens, and thus reinforce public support for continued economic and political liberalization.

Because we do not have an adequate proxy for administrative capacity or judicial competence, our readiness indicators do not capture the problems many countries face in implementing and enforcing regional and multilateral trade obligations. Depending on the substance of the integration arrangements, countries may need to upgrade their administrative capabilities or build regional institutions to complement or supplement them. These problems can be particularly vexing when countries must deal with complex regulatory issues such as competition policy and the protection of intellectual property rights.

Several countries participating in the FTAA talks already face challenges in meeting the obligations of the intellectual property accord in the World Trade Organization. The hemisphere-wide talks on competition policy may raise similar institutional problems. In some cases, LAC countries will need technical and financial assistance from developed countries to train officials and modernize administrative procedures (see Weintraub 1999). Such assistance should be extended during the course of FTAA negotiations to ensure that the administrative infrastructure and legal system of participating countries can accommodate their FTAA obligations.

The indicators are constructed on the basis of a three-year moving average of the latest data. Because this average is designed to capture trends in economic performance, it does not fully credit economic reforms until they have been sustained for a reasonable period. Three years provide a good indication of political commitment to continued reform without unduly taxing countries for past policy failures.

The indicators are evaluated on a five-point scale, with five being the highest achievable score. The scales have been calibrated to reflect the development experience of a wide range of countries that have engaged in liberalization episodes (Hufbauer and Schott 1994, chapter 5).

In constructing each country's score, we assign equal weights to the average of the five macroeconomic indicators, the average of the two market reform indicators, and the policy sustainability indicator. The earlier methodology gave each indicator equal weight and thus assigned a large

5. For insightful and varied comments on the importance of the second generation of reforms, see Camdessus (1997), McLarty (1998), and Rhodes (1997).

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aggregate weight to macroeconomic policies. The new weighting thus lowers the scores of several small economies, more accurately reflecting the key challenges, especially tax reform, that confront their participation in the FTAA. Similarly, giving added weight to the policy sustainability indicator better reflects the problems posed by the different degrees of social development and democratic governance among FTAA countries. The new weighting recognizes that other initiatives, including tax and judicial reforms, are also critical to continued growth; without them few Latin American countries will be able to participate in a free trade agreement with their industrialized neighbors in North America.

Developments since the Miami Summit

LAC countries have generally recorded solid gains in their readiness indicator scores since the Miami Summit in 1994, despite two major financial crises. Of the 32 FTAA participants in Latin America and the Caribbean, 27 recorded higher scores in 2001 than in 1994. Both the Mexican peso crisis in 1995 with its subsequent "tequila effect" on other South American countries, and the 1999 region-wide recession generated by the aftershocks of the Asian and Brazilian financial crises, have tended to reinforce rather than roll back economic reforms, softening the initial downturn and accelerating the recovery. Indeed, the constructive policy responses to the 1995 financial crisis helped put Mexico and Argentina in a stronger position to address the "samba shock" emanating from the Brazilian crisis of 1998–99.

Nonetheless, Brazil, Colombia, and Ecuador fell sharply down the rankings as the recent turmoil in currency markets depressed their scores on several macroeconomic indicators. Two small eastern Caribbean nations, St. Kitts and St. Vincent, also received lower scores due to lax budget discipline and a higher debt-servicing burden, respectively.

To be sure, if one calculated the readiness scores each year for the Latin American countries, it would be clear that progress has been achieved by taking one step back for every two or three steps forward. For some countries, the overall score fell during the mid-1990s to levels below the 1994 score before recovering to new highs in 2001. For example, Mexico's score dropped from 4.00 in 1994 to 3.78 in 1997—due primarily to the inflationary surge after the peso crisis and the subsequent period of currency instability, but recovered to 4.11 in 2001 as those problems abated and growth rebounded. For others, recent economic shocks have temporarily reversed the progress since 1994. Brazil's overall score rose from 3.38 in 1994 to 3.59 in 1998 before falling back to 3.14 after the financial crisis of late 1998–99, which lowered the score for the macroeconomic indicators from 3.40 to 1.80. However, if the robust recovery can be sustained and its

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macro results mirror those achieved in 2000, Brazil's score in 2002 will jump back to 3.56.

Aggregate 2001 readiness scores for each country are reported in table 2.1. To make comparisons easier, we have recalculated the original Hufbauer-Schott 1994 readiness indicators to conform to the updated series (see table 2.2). The country rankings for both years are arrayed in table 2.3.

Each region benefited from ongoing reforms mandated by both the Uruguay Round and free trade pacts among hemispheric neighbors. As a result, the 1994 scores—which had in many cases been burdened by the weak economic performance of the early 1990s—increased markedly. The most pronounced progress came from curbing inflation. The average unweighted score for the 32 countries in the 2001 index was 4.22, compared to 2.97 in 1994; inflation in the region as a whole fell from an annual average (December to December) of 111 percent in 1994 to 9 percent in 2000 (ECLAC 2000a). The region also significantly reduced the external debt-servicing burden, raising this indicator from 3.48 in 1994 to 3.97, and improved on the market-oriented policies indicator, from 2.80 in 1994 to 3.38 in 2001. More troubling, though, the high scores for budget discipline in 1994 weakened appreciably in several countries (Brazil, Colombia, Ecuador, and Jamaica), bringing the average regional score down from 4.22 in 1994 to 3.88 in 2001.

For the region as a whole, the real currency stability indicator received the highest marks. In most countries, exchange rate volatility was limited. Notable exceptions were Brazil in 1999, Ecuador in 2000, and to a lesser extent Colombia in 1999–2000. However, these three cases brought down slightly the average score for the region, from 4.53 in 1994 to 4.47 in 2001.

The two main problem areas are overreliance on trade taxes for government revenue and depressed national savings. The tariff revenue problem is particularly troublesome in the Caribbean, where, if we exclude Barbados and Trinidad and Tobago, the average score is only 0.46. The low readiness scores for this indicator underscore the need for additional fiscal reforms in those countries to facilitate their participation in a hemisphere-wide free trade pact. By contrast, all the Mercosur countries except Paraguay receive high scores and the Andean region posts an average of 3.8. Central American countries lag in this area with an aggregate score of 2.5—up from 1.7 in 1994.

The savings problem is more endemic. Compared to the savings record of East Asian countries, few in the Western Hemisphere score well on this indicator (including the United States and Canada).[6] However, the industrial countries have a richer array of financing alternatives than their Latin

6. The average annual ratio of US gross national savings to GDP was 18.6 percent for the period 1998–2000, which translates into a score of 3 (CEA, *Economic Report of the President*, January 2001).

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Table 2.1 2001 Readiness Indicators

	Price stability	Budget discipline	National savings	External debt	Currency stability	Macro-economic indicator	Market-oriented policies	Reliance on trade taxes	Market indicator	Policy sustain-ability	Readiness indicators average
Mercosur											
Argentina	5	5	2	0	5	**3.40**	4.5	4	**4.25**	**3.88**	**3.84**
Brazil	4	2	2	1	0	**1.80**	4.0	5	**4.50**	**3.13**	**3.14**
Paraguay	4	5	3	5	5	**4.40**	3.0	3	**3.00**	**3.13**	**3.51**
Uruguay	4	4	2	5	5	**4.00**	3.5	5	**4.25**	**4.25**	**4.17**
Andean Community											
Bolivia	5	3	2	2	5	**3.40**	4.5	4	**4.25**	**3.13**	**3.59**
Colombia	4	3	2	3	3	**3.00**	4.0	4	**4.00**	**3.25**	**3.42**
Ecuador	0	3	2	2	0	**1.40**	2.5	3	**2.75**	**3.38**	**2.51**
Peru	5	5	3	2	5	**4.00**	3.5	4	**3.75**	**2.75**	**3.50**
Venezuela	3	5	4	5	4	**4.20**	3.0	4	**3.50**	**3.25**	**3.65**
Central America											
Costa Rica	4	4	3	5	5	**4.20**	4.5	4	**4.25**	**4.00**	**4.15**
El Salvador	5	4	2	5	5	**4.20**	4.5	3	**3.75**	**3.13**	**3.69**
Guatemala	4	4	1	5	4	**3.60**	3.0	3	**3.00**	**2.63**	**3.08**
Honduras	4	4	3	4	5	**4.00**	3.0	3	**3.00**	**3.00**	**3.33**
Nicaragua	4	3	1	0	5	**2.60**	2.5	1	**1.75**	**2.75**	**2.37**
Panama	5	4	3	5	5	**4.40**	4.0	1	**2.50**	**4.00**	**3.63**

Caribbean											
Antigua and Barbuda	5	2	2	5	5	**3.80**	2.5	0	**1.25**	**3.63**	**2.89**
Bahamas	5	5	n.a.	5	5	**5.00**	3.5	0	**1.75**	**4.50**	**3.75**
Barbados	5	5	2	5	5	**4.40**	4.0	4	**4.00**	**4.75**	**4.38**
Belize	5	4	2	5	5	**4.20**	3.5	0	**1.75**	**4.25**	**3.40**
Dominica	5	3	3	5	4	**4.00**	2.5	0	**1.25**	**4.25**	**3.17**
Dominican Republic	4	5	3	5	5	**4.40**	3.5	0	**1.75**	**3.38**	**3.18**
Grenada	5	4	4	5	5	**4.60**	3.0	1	**2.00**	**4.00**	**3.53**
Guyana	4	3	2	3	4	**3.20**	2.0	3	**2.50**	**3.50**	**3.07**
Haiti	4	5	0	3	5	**3.40**	1.0	2	**1.50**	**1.00**	**1.97**
Jamaica	4	3	4	4	5	**4.00**	3.5	0	**1.75**	**3.50**	**3.08**
St. Kitts and Nevis	5	1	2	5	5	**3.60**	3.5	0	**1.75**	**4.00**	**3.12**
St. Lucia	5	5	1	5	5	**4.20**	3.5	0	**1.75**	**3.75**	**3.23**
St. Vincent and the Grenadines	5	5	1	4	5	**4.00**	3.0	0	**1.50**	**3.75**	**3.08**
Suriname	0	1	1	5	5	**2.40**	1.5	0	**0.75**	**3.50**	**2.22**
Trinidad and Tobago	5	5	2	5	5	**4.40**	4.0	4	**4.00**	**4.00**	**4.13**
Mexico	4	5	3	5	4	**4.20**	4.5	5	**4.75**	**3.38**	**4.11**
Chile	5	5	3	4	5	**4.40**	5.0	4	**4.50**	**4.00**	**4.30**

n.a. = not available
Mercosur = Southern Cone Common Market.

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Table 2.2 1994 Readiness Indicators (recalculated)

	Price stability	Budget discipline	National savings	External debt	Currency stability	Macro-economic indicator	Market-oriented policies	Reliance on trade taxes	Market indicator	Policy sustain-ability	Readiness indicators average
Mercosur											
Argentina	1	5	2	1	3	**2.40**	5.0	4	**4.50**	3.88	**3.59**
Brazil	0	5	3	2	5	**3.00**	3.0	5	**4.00**	3.13	**3.38**
Paraguay	3	5	2	5	5	**4.00**	3.0	2	**2.50**	2.75	**3.08**
Uruguay	0	5	2	5	4	**3.20**	3.0	4	**3.50**	4.00	**3.57**
Andean Community											
Bolivia	4	3	1	0	5	**2.60**	4.0	4	**4.00**	2.38	**2.99**
Colombia	2	5	3	4	4	**3.60**	4.0	3	**3.50**	3.75	**3.62**
Ecuador	0	5	2	1	4	**2.40**	3.0	3	**3.00**	3.38	**2.93**
Peru	0	5	2	0	4	**2.20**	2.0	3	**2.50**	2.00	**2.23**
Venezuela	1	4	3	3	5	**3.20**	4.0	3	**3.50**	3.75	**3.48**
Central America											
Costa Rica	3	5	3	5	5	**4.20**	3.0	2	**2.50**	4.25	**3.65**
El Salvador	4	4	2	4	4	**3.60**	2.0	2	**2.00**	2.25	**2.62**
Guatemala	4	5	1	5	5	**4.00**	1.0	2	**1.50**	1.75	**2.42**
Honduras	4	2	3	2	5	**3.20**	2.0	0	**1.00**	2.25	**2.15**
Nicaragua	0	5	0	0	5	**2.00**	1.0	2	**1.50**	1.75	**1.75**
Panama	5	5	3	5	5	**4.60**	2.0	2	**2.00**	3.75	**3.45**

Caribbean											
Antigua and Barbuda	5	4	2	n.a.	5	**4.00**	2.5	0	**1.25**	3.13	**2.79**
Bahamas	5	4	n.a.	5	5	**4.75**	3.0	0	**1.50**	4.25	**3.50**
Barbados	5	5	2	5	5	**4.40**	3.0	2	**2.50**	4.50	**3.80**
Belize	5	3	3	5	5	**4.20**	3.0	0	**1.50**	3.50	**3.07**
Dominica	5	4	2	5	5	**4.20**	2.5	0	**1.25**	3.75	**3.07**
Dominican Republic	4	5	2	4	5	**4.00**	2.0	0	**1.00**	2.75	**2.58**
Grenada	5	5	3	5	5	**4.60**	3.0	1	**2.00**	3.75	**3.45**
Guyana	0	0	0	0	4	**0.80**	2.0	3	**2.50**	2.50	**1.93**
Haiti	3	3	0	0	3	**1.80**	0.5	2	**1.25**	0.00	**1.02**
Jamaica	0	5	3	4	4	**3.20**	3.0	0	**1.50**	3.38	**2.69**
St. Kitts and Nevis	5	5	4	5	5	**4.80**	3.0	0	**1.50**	4.00	**3.43**
St. Lucia	5	5	1	5	5	**4.20**	3.0	0	**1.50**	3.75	**3.15**
St. Vincent and the Grenadines	5	4	1	5	5	**4.00**	3.0	0	**1.50**	4.00	**3.17**
Suriname	0	0	n.a.	5	2	**1.75**	1.0	0	**0.50**	2.75	**1.67**
Trinidad and Tobago	4	5	2	5	4	**4.00**	3.0	3	**3.00**	4.50	**3.83**
Mexico	4	5	2	4	5	**4.00**	5.0	4	**4.50**	3.50	**4.00**
Chile	4	5	4	4	5	**4.40**	5.0	3	**4.00**	4.00	**4.13**

n.a. = not available
Mercosur = Southern Cone Common Market.

Note: These scores are based on our revised weightings and most current data, and thus differ from the indicators originally published in Hufbauer and Schott (1994).

Table 2.3 Comparison of 2001 and 1994 rankings of Readiness Indicator scores

	2001 rank	Readiness indicators	1994 rank	Readiness indicators	Rank difference, 1994-2001
Barbados	1	4.38	4	3.80	3
Chile	2	4.30	1	4.13	−1
Uruguay	3	4.17	8	3.57	5
Costa Rica	4	4.15	5	3.65	1
Trinidad and Tobago	5	4.13	3	3.83	−2
Mexico	6	4.11	2	4.00	−4
Argentina	7	3.84	7	3.59	0
Bahamas	8	3.75	9	3.50	1
El Salvador	9	3.69	24	2.62	15
Venezuela	10	3.65	10	3.48	0
Panama	11	3.63	11	3.45	0
Bolivia	12	3.59	20	2.99	8
Grenada	13	3.53	12	3.45	−1
Paraguay	14	3.51	17	3.08	3
Peru	15	3.50	27	2.23	12
Colombia	16	3.42	6	3.62	−10
Belize	17	3.40	18	3.07	1
Honduras	18	3.33	28	2.15	10
St. Lucia	19	3.23	16	3.15	−3
Dominican Republic	20	3.18	25	2.58	5
Dominica	21	3.17	19	3.07	−2
Brazil	22	3.14	14	3.38	−8
St. Kitts and Nevis	23	3.12	13	3.43	−10
Jamaica	24	3.08	23	2.69	−1
St. Vincent and the Grenadines	25	3.08	15	3.17	−10
Guatemala	26	3.08	26	2.42	0
Guyana	27	3.07	29	1.93	2
Antigua and Barbuda	28	2.89	22	2.79	−6
Ecuador	29	2.51	21	2.93	−8
Nicaragua	30	2.37	30	1.75	0
Suriname	31	2.22	31	1.67	0
Haiti	32	1.97	32	1.02	0

American neighbors, so the relatively low level of savings in the region is cause for concern. The average score of the 32 countries for national savings is only 2.19 (up slightly from 1994); the Mercosur and Central American countries average 2.2 and the countries in the Andean region 2.6.

Overall, Barbados receives the highest readiness score in the region with an overall score of 4.38 out of 5, followed closely by Chile at 4.30 (see table 2.3). Haiti remains at the bottom of the table, reflecting its general state of political and economic disorganization. Suriname and Nicaragua score only slightly better, although all three countries have made significant progress since 1994. Also noteworthy is the progress made by some countries formerly in the lowest quartile of the list: Peru recorded the greatest

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improvement, raising its overall score by 1.27 points to 3.50; Honduras improved by 1.18 points to 3.33; and Guyana added 1.14 points to reach 3.07.

The scores of the Mercosur countries except Brazil have shown strong improvement. The entire region initially benefited from the success of Brazil's *Plano Real*, although none has recovered from the crisis of late 1998–99 as quickly or strongly as Brazil. Uruguay's progress on seven of the eight indicators, and the accompanying increase in its overall score from 3.57 to 4.17, is particularly notable; it is now third in the overall rankings. Though Argentina's score increased to 3.84 (ranking it seventh overall), with weak growth, an overvalued peso, and high unemployment, it remains vulnerable to new financial shocks that could knock its score down. Paraguay also recorded progress in all areas, raising its score from 3.08 to 3.51. As noted above, Brazil fell at least temporarily to the bottom of the regional group but should rebound substantially next year.

In contrast, progress in the Andean region has been more erratic. Political turmoil in Colombia involving drug cartels and armed insurrections and unstable governments in Ecuador contributed to a significant decline in their rankings; their readiness scores fell to 3.42 and 2.51, respectively. Venezuela's score might also have suffered had it not been bolstered by the sharp increase in oil prices in 2000, which helped bring it up from 3.48 to 3.65. On the other hand, Peru improved twelve places in the rankings with a score of 3.50; those results seem to be resilient despite Fujimori's tumultuous final years in power and abrupt resignation. Bolivia made good progress as well, moving up eight places in the rankings with a score of 3.59.

The Central American economies seem to be growing at three separate speeds. Costa Rica leads the pack at 4.15, followed by El Salvador and Panama with relatively high marks of 3.69 and 3.63, respectively. Honduras (3.33) and Guatemala (3.08) showed marked progress but lag somewhat on market-oriented reforms compared to their regional partners. Nicaragua's score increased significantly to 2.37, but it continues to trail its neighbors because of low savings, high external debt, and insufficient liberalization.

The Caribbean region has some of the highest scores in the hemisphere (Barbados, 4.38, and Trinidad and Tobago, 4.13) and some of the lowest (Haiti, Suriname, and Antigua and Barbuda). The small economies of the Eastern Caribbean States rate particularly well on the macroeconomic indicators but their scores suffer due to their heavy reliance on trade taxes. Each of those countries fell in the rankings, earning a score between 2.89 (Antigua and Barbuda) and 3.23 (St. Lucia). Several larger countries still have a lot of work to do to raise their scores, although the Dominican Republic (3.18) and Jamaica (3.08) have made substantial progress since 1994.

The following appendix looks more closely at developments in each region as well as for individual countries. Aggregate tables with data for each indicator are at the end of this chapter.

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Appendix 2.1
Readiness by Region

Readiness of the Mercosur Countries

Argentina, Brazil, Paraguay, and Uruguay have gone through two boom and bust cycles since the creation of their Southern Cone Common Market, or Mercosur, a decade ago. Argentina and Uruguay were hit the hardest by the tequila effect of 1995 but recovered robustly; they then regressed during the 1998–99 Brazilian crisis and their growth remains anemic. Since the Miami Summit, average annual growth for Argentina has been 1.9 percent and for Uruguay 1.6 percent. By contrast, Brazil recorded positive if unspectacular growth in every year during that period, growing by an average of 2.5 percent annually.

Trade among the Mercosur partners has grown rapidly since the bloc's inception in 1991, when intraregional trade totaled $5 billion and represented 11 percent of total exports of the four countries. Spurred by renewed growth in the region, the adoption of a common external tariff (CET) in 1995, and increased intraregional investment, intra-Mercosur exports increased to $20.4 billion in 1998 before contracting to $15 billion when the depreciation of the Brazilian real prompted a sharp drop in economic activity in the region. However, Mercosur trade rebounded in 2000, with intraregional exports up about 20 percent to $18 billion, accounting for more than 20 percent of total exports from the region (IDB 2000).[7]

The impressive progress over the past decade in promoting macroeconomic stabilization, financial and trade liberalization, and regulatory reform has boosted foreign investment in the region. Over the period 1995–99, Brazil and Argentina registered the largest FDI increases in South America, with cumulative inflows of $94.6 billion and $50.3 billion, respectively (UNCTAD 2000). Foreign funds have been attracted in part by the extensive privatization programs in both countries.

Brazil dominates Mercosur, accounting for approximately 70 percent of the bloc's GDP, almost 80 percent of its population, and two-thirds of its total trade with the world (table 1.1 and IDB-INTAL 2000). Brazilian reforms have contributed significantly to regional growth by spurring new investment in critical transport and telecommunications infrastructure and in energy resources, and by reducing the fiscal drag of inefficient state-owned enterprises on the public accounts.

7. To be sure, consolidation of the Mercosur is far from complete. Exceptions to the CET granted to each country in 1995 will not be fully phased out until 2006, and coordinated policies on tough trade-related issues such as antidumping, government procurement, and services trade are still under development.

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If Mercosur is to continue to succeed, Brazil must sustain its reforms and the region must avoid a new currency crisis. The Argentine economy was hurt badly by the depreciation of the Brazilian real in 1999. Argentina continues to suffer due to its overvalued peso, which erodes its trade competitiveness and deters to some extent new investment in manufacturing. The appreciation of the US dollar, to which the Argentine currency is pegged, has caused the peso's steady ascent. A new bout of macroeconomic instability in Brazil would harm the economies of its partners, straining intrabloc relations and possibly unraveling political support for Mercosur. If the real floats lower, it will increase pressure on Argentina to abandon its currency board regime or to revise the terms of its integration arrangement with Brazil.

Unemployment is another problem area. Since its 1995 recession, Argentina's annual urban unemployment rate has fallen from 17.5 percent in 1995 to 15.4 percent in 2000, but in 1998 it had actually dropped to 12.9 percent before rising again. Uruguay's unemployment rate increased from 10.8 to 11.9 percent over the same period (ILO 2000). The unemployment rate in Paraguay more than doubled since 1994 to 9.4 percent in 1999. In Brazil unemployment reached a 14-year high of more than 8 percent during its financial crisis; it has fallen only slightly since then, to 7.5 percent in 2000.

Price Stability. All four Mercosur countries have shown impressive reductions in inflation since the Miami Summit, with Brazil's by far the most dramatic (table 2.4). Brazil's score of 4 on our scale, up from 0 in 1994, demonstrates the country's tremendous progress in this area. The drop in inflation since *Plano Real* was introduced in mid-1994 is the cornerstone of Brazil's economic revival. Brazil's annual inflation rate plummeted from 2,477 percent in 1993 to 1.7 percent in 1998 before the financial crisis. The surge of inflation after the currency depreciation in early 1999 was remarkably well contained and Brazil's inflation rate fell back to 6.6 percent in 2000.

Argentina's annual rate of inflation since 1995 has been among the lowest in the world, and earns the country a score of 5. However, consumer prices actually fell in 1999–2000—not a sign of economic well-being—during its extended recession. Uruguay and Paraguay also have reduced inflation since 1994, and both earn a score of 4. Uruguay's recent progress has been noteworthy. The Uruguayan consumer price index fell from 44.1 percent in 1994 to 5.7 percent in 2000; Uruguay's three-year average of 6.2 percent earns a score of 4 (up from 0 in 1994). Paraguay also has cut its inflation rate substantially, down to an average of 9.8 percent from 1998 through 2000 despite fluctuating erratically from year to year.

Budget Discipline. Except for Brazil, budget discipline in the Mercosur economies has been relatively strong (see table 2.5). Paraguay and

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Argentina both recorded average budget deficits of 1.7 percent of GDP for the 1998–2000 period, earning scores of 5 for budget discipline. By contrast, Uruguay's deficits have grown through prolonged recession and the three-year average deficit has widened to 2.7 percent of GDP, reducing its score to 4.[8]

Brazil earns a score of 2 for its 1998–2000 average deficit of 5 percent of GDP. Skyrocketing interest costs on government debt in the run up and ramping down of the financial crisis in 1998–99 contributed to the sharp deterioration in Brazil's fiscal health. Nonetheless, Brazil has made notable progress since the crisis in early 1999 to rein in spending through extensive reforms of the pension system and civil service payrolls. As a result, the nonfinancial public sector deficit fell from 7.4 percent of GDP in 1998 to 3.4 percent in 1999.[9]

Gross National Savings. Low domestic savings is a critical problem for Latin America as a whole, and particularly for the Mercosur region (table 2.6), which relies heavily on investment-led growth. Weak savings performance has increased the region's vulnerability to reductions in FDI. Three-year average gross national savings rates of 16 percent in Brazil, 14 percent in Argentina, and 12 percent in Uruguay earned each of these countries a score of 2. In each case, the savings to GDP ratio is down from earlier in the decade. By contrast, Paraguay has markedly increased its savings, which averaged 21 percent of GDP over the period 1997–99, earning it a score of 3.

External Debt. The external debt record of the Mercosur economies is mixed (table 2.7). Argentina and Brazil remain two of the world's largest debtors. Argentina runs the second highest debt-to-exports ratio in Latin America; its three-year average external debt-to-exports ratio of 482 (compared to 424 in 1994) earns a score of 0. Brazil's situation also has deteriorated since the mid-1990s due to the debt build-up during the recent crisis. Its debt-to-exports ratio averaged 401 over the period 1998–2000, earning a score of 1.

During the debt crisis of the 1980s, Uruguay and Paraguay accumulated significantly smaller magnitudes of external debt than their Mercosur partners; they have had few problems in maintaining low average

8. Moreover, these figures do not include social security expenditures, which have long absorbed an overwhelming proportion of federal revenues. Uruguay has by far the largest social security budget (as a percent of GDP) of any country in Latin America as well as the largest percentage of elderly population (IDB 1997).

9. If we counted the consolidated public sector deficit, which includes state-owned enterprises, the budgets of the 27 states and several hundred municipalities, the social security system, the treasury, and the central bank, Brazil's deficit would be significantly higher.

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levels of external debt as a percentage of exports over the past decade. Paraguay has one of the lowest debt ratios (59 percent) in the hemisphere, having significantly reduced its external debt in the late 1980s. Paraguay and Uruguay, with three-year average debt to exports ratios of 59 percent and 140 percent, respectively, earn scores of 5 each.

Currency Stability. Argentina, Uruguay, and Paraguay fare well on the currency stability indicator (table 2.8), earning scores of 5. Brazil's score plummeted as a consequence of the large real depreciation of its currency in 1999; its three-year standard deviation was 26, substantially higher than in the 1990s, resulting in a score of 0.

Market-Oriented Policies. As a group, the Mercosur countries have undertaken significant market reforms over the past three years pursuant to implementation of the Uruguay Round agreements and the deepening integration arrangements in the region (see table 2.9). However, progress has been in fits and starts; the Mercosur countries have taken two or three steps forward for every step backward.

Of the four Mercosur members, Brazil has progressed the most in this category since 1994. Privatization in Brazil took off in 1997 with the sale of state-owned power distributors, cellular telephone concessions, and the giant mining group, Companhia Vale do Rio Doce. Brazilian lawmakers also have passed legislation eliminating the distinction between foreign and domestic firms, reduced many restrictions on foreign investment, and significantly improved protection of intellectual property rights. Together these factors have helped raise the country's score since 1994 from 3 to 4. It might have risen further but for Brazil's numerous exceptions to Mercosur's common external tariff, as well as incentives, tariff hikes, and investment performance requirements affecting the automobile sector.

Argentina rates a high score in this category. The country maintains a generally open market for imports and has eliminated nearly all price controls on goods and services. The financial market reforms undertaken by Argentina in response to the 1995 tequila effect have put the country in a stronger position to adjust to financial turmoil. New prudential controls, supervision, and mandatory public disclosure, as well as broader participation by foreign financial service providers, have helped strengthen the country's financial sector. Argentina has also gone further with the privatization of state-owned enterprises than most other Latin American countries, including the $13 billion sale of the oil company YPF in 1999. However, Argentina has slipped from our (in retrospect) overgenerous score of 5 to 4.5 over the past three years for raising a series of ad hoc, protectionist trade barriers—including the reintroduction of the "statistical tax" on imports—in response to recurrent trade deficits. Political resistance to

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reforming intellectual property law also has contributed to the reduction in Argentina's score.[10]

Uruguay and Paraguay score somewhat lower than their neighbors. Uruguay's progress in reducing the size of the public sector and liberalizing foreign investment has raised its score from 3 to 3.5. Paraguay's slow progress in privatizing and its long history of smuggling and commercial piracy have kept its market-oriented policies score at 3 (see, for example, *Washington Post*, 10 April 1998, A16).

Reliance on Trade Taxes. Argentina, Brazil, and Uruguay have consistently relied on trade taxes for only a small percentage of their revenues (table 2.10). Moreover, in Argentina and Uruguay the percentage of revenue from trade taxes has shown a downward trend since the early 1990s. Argentina, which earns a 4 for the 1996–98 period, saw revenue from trade taxes drop from 15.8 percent of current revenues in 1990 to 6.6 percent in 1998. Similarly, Uruguay's reliance on trade taxes fell from 10.3 percent in 1990 to 3.6 percent in 1999, earning the country a score of 5. Brazil has long relied on trade taxes for less than 5 percent of current revenue, hence its score of 5.

Paraguay, on the other hand, relied heavily on trade taxes, which reached 18 percent in 1995, but the percentage has fallen steadily. In 1999, trade taxes comprised 10 percent of Paraguay's revenues—good for a score of 3.

Policy Sustainability. This indicator, which gauges the social welfare, political rights, and civil liberties of a country's citizens, measures the sustainability of political support for domestic reforms. Here Uruguay earned a policy sustainability score of 4.25 and Argentina a score of 3.88, due in large part to their high scores on the UN Human Development Indexes (HDIs). The United Nations has designated them as "high human development" nations. In fact, Argentina ranks 35th and Uruguay 39th among all nations. This reflects their relatively high living standards, life expectancies, and access to education. Furthermore, both countries are characterized by fairly strong political rights and civil liberties, although concern has been mounting about corruption at federal, state, and local levels.

Brazil and Paraguay receive relatively lower scores (3.13). Their HDI rankings—Brazil 74th and Paraguay 81st overall—make them "medium human development" countries. Moreover, Brazil earns a low score for civil liberties because of its weak judiciary, frequent instances of police brutality, and need for education reform (Freedom House 1997). Paraguay earns a low score on political rights, due to recent election fraud and the military's influence on the civilian government.

10. Argentina's law offers considerably less protection for rights holders than Brazil's, and has tended to inhibit foreign investment in specific sectors, especially pharmaceuticals.

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Readiness of the Andean Countries

After the Miami Summit, the Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—experienced several years of dynamic growth, followed by a slowdown in 1998–99 from which they began to recover in 2000. The deceleration was spurred by declining oil and commodity prices, infrastructure damage related to the El Niño weather phenomenon (especially in Ecuador and Peru), and political instability. In turn, these factors contributed to a sharp decline in FDI throughout the region, except in Bolivia (ECLAC 1999).

Peru and Bolivia have averaged almost 4 percent growth during this period, despite Peru's slump in 1998–99 due to weak commodity prices. By contrast, a major recession in 1999 pushed GDP down in Ecuador by 7.3 percent, in Venezuela by 6.1 percent, and in Colombia by 4.3 percent. While the region recovered somewhat in 2000, the rise in unemployment generated by the previous slump has not yet abated. Except for Bolivia, urban unemployment rates in the region ranged from 10 to 20 percent in 2000 (ECLAC 2000a, table A-5).

Ecuador has been particularly unstable since 1994, both economically and politically. The country has suffered through armed conflict with Peru, domestic uprisings, and a major change in exchange rate policy—all compounded by falling oil prices, an external financial crisis, and El Niño, which disrupted fishing and flooded farmlands. In January 2000, the new government abandoned the sucre, adopting the US dollar as legal currency. A new package of economic reforms was introduced, but implementation has been hampered by uprisings against the removal of expensive subsidies, especially for gasoline and cooking gas. In addition, there have been five different presidents between 1996 and 2000. In February 1997, Congress ordered the removal of President Abdala Bucaram on charges of corruption and mental incapacity; his successors, however, have been unable to restore political stability or to hold office for long.

In Venezuela, the election in 1998 of President Hugo Chávez, leader of a 1992 coup attempt, increased both political and economic uncertainty. Constitutional reforms have provoked concerns about the concentration of presidential powers; populist economic policies, including wage hikes for military and civil servants, have raised questions about the durability of Venezuela's economic reforms (*Financial Times*, 16 November 1998). In 1999 the downturn in oil prices, coupled with a devastating mudslide, caused Venezuela's economy to shrink by 6 percent. With the sharp rebound in oil prices in 2000, Venezuela's economy recovered to 3.5 percent growth.

Colombia's erratic economic performance has taken place against a complicated political backdrop of conflict between the army and guerrilla groups, the threat of US drug policy decertification, and presidential corruption scandals. The economy was also buffeted by the Asian and Brazil-

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ian financial crises of the late 1990s, and by a 1999 earthquake that disrupted economic activity in the coffee-growing regions.

Price Stability. Bolivia and Peru have made substantial progress in combating inflation since the early 1990s (table 2.4). Their inflation rates for the period 1998–2000 averaged 4.5 and 4.7 percent, respectively, earning scores of 5 on our readiness scale. In Bolivia, inflation has been brought under control since the mid-1990s due in part to a decline in the government budget deficit and good harvests. In Peru, a tight monetary regime initiated in mid-1995 has tamed inflation, in stark contrast to the hyperinflation at the start of the decade.

Colombia's performance has improved significantly since 1997, with the inflation rate falling to single digits by 1999 and 2000 from an average of about 20 percent in the mid-1990s.[11] The three-year average of 12.2 percent earns Colombia a readiness score of 4.

Venezuelan performance early in the post-1994 period was dismal, with annual inflation in 1996 exceeding 100 percent due to the removal of exchange and price controls and the depreciation of the bolivar. Since then, the rate has dropped each year, although progress has been slowed by the 1998 wage hikes of about 75 percent to military and civil servants (*Financial Times*, 27 February 1998; ECLAC 1999). Venezuela's score improves from 1 in 1994 to 3.

Ecuador started off the decade with serious inflation and has seen a steady deterioration since 1996 due to higher food prices, import duties, and public utility rates. Since the introduction of dollarization in January 2000, inflation has begun to trend down. Nonetheless, in 2000, Ecuador had the highest inflation rate (more than 100 percent) among the FTAA countries; it retains a score of 0.

Budget Discipline. The governments of the Andean countries generally maintained fiscal discipline over the period 1995–97, but budget deficits subsequently widened as a result of increased outlays related to civil insurrection (Colombia), El Niño damage, and other factors (see table 2.5). The 1998–2000 average budget balances of –0.6 percent of GDP in Peru and –1.5 percent of GDP in Venezuela earned them scores of 5 each. Peru's success results from both restrained government spending and steps taken in 1994 to broaden the tax base and improve the efficiency of tax collection.

Venezuela also has achieved a notable improvement over its 1992–94 average deficit of 7 percent.[12] Fiscal policy in Venezuela is largely influenced by oil prices. In 1996 and 1997, Venezuela ran a budget surplus as

11. Note that in 1999 Colombia's methodology for calculating the CPI changed, with the basket of items increased from 195 items to 405.

12. Support for Venezuelan banks following the 1994 financial crisis contributed to a jump in the government budget deficit from 1.3 percent of GDP in 1993 to 13.8 percent in 1994.

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the 1996 currency devaluation boosted oil receipts in local currency terms; in 1998, falling oil prices resulted in a large deficit. In 1998 and 1999 the effects of the Brazilian financial crisis compounded the impact of the declining oil price. Rising oil prices in 2000 again moved the budget into surplus, but the gain was moderated by a 20 percent rise in pensions and wages.

Bolivia's fiscal position has improved since the early 1990s as the government has undertaken reforms such as the privatization of loss-making state-owned enterprises. However, it worsened starting in 1997 due in large measure to higher public spending on a new pension reform plan with an estimated cost of 4 percent of GDP per year (ECLAC 2000b, 143). The coca eradication program also strained the budget. Bolivia's three-year average deficit of 4 percent of GDP earns a score of 3.

In Colombia, expenditures resulting from mandatory outlays to local governments have contributed to a slight deterioration of public finances since 1995. External financial shocks, lower tax receipts, and a major earthquake in the coffee-growing region increased the public sector deficit to 6 percent in 1999. While the deficit moderated in 2000 to 3.6 percent, the three-year average was 4.3 percent, earning Colombia a score of 3, down from its 1994 score of 5.

In 1994 Ecuador received a budget discipline score of 5. However, in the mid-1990s, its fiscal balance deteriorated due to wage hikes for public employees and subsidies for electricity and gas. In the late 1990s, the effects of El Niño combined with the fall in oil prices to push up the fiscal deficit. Reforms introduced in conjunction with dollarization, as well as higher oil prices, have helped lower the deficit to 1 percent of GDP in 2000. For its three-year average deficit of 3.7 percent Ecuador also receives a score of 3.

Gross National Savings. Bolivia earns a score of 2 for its 1998–2000 savings rate of 12.4 percent, the lowest in the region (table 2.6), but replacing the corrupt and nearly bankrupt social security system with a private pension system should help raise the savings rate over time. In Peru, adoption of a private pension system and the government's fiscal discipline have contributed to a rise in the three-year average savings rate from 13.0 percent of GDP in 1991–93 to over 18 percent in 1998–2000, increasing its score to 3. With three-year average savings rates of 17 percent and 15 percent, respectively, Ecuador and Colombia both rate a 2 on this indicator, although Ecuador's savings-to-GDP ratio has increased steadily to 19.2 percent in 2000. Venezuela has improved dramatically since the government's profligate response to the 1993–94 crisis. The country's 1996–98 average savings rate of 24 percent earns it a score of 4.

External Debt. Except for Venezuela and Colombia, the Andean countries are still recovering from the debt crisis of the 1980s (table 2.7). In

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1997, Bolivia qualified for debt relief as a heavily indebted poor country (HIPC). Under this program, Bolivia's public external debt will be reduced by about $448 million in net present value terms (World Bank 1998, 57). As a result, net foreign debt decreased slightly; coupled with improved debt service capability, Bolivia now earns a score of 2—a marked improvement from the 1994 score of 0.

Both Peru and Ecuador also receive a score of 2. In July 1996 Peru rescheduled its debt with the Paris Club and was granted substantial relief over the next three years, significantly easing its debt-servicing burden. Ecuador's efforts to negotiate debt relief have been more difficult. It failed to complete an IMF standby agreement in 1998, complicating the country's renegotiation of arrears with the Paris Club (finally completed in 2000).

Colombia's debt ratio increased slightly, reducing its score from 4 to 3. Venezuela, which by Latin American standards has traditionally had a relatively small debt burden, receives a score of 5.

Currency Stability. Bolivia and Peru both earn a score of 5 for currency stability. Others in the region have not fared so well (table 2.8). Colombia devalued its peso late in 1997. Soon after, however, Colombia's central bank had to adjust the exchange rate band for the peso several times in response to speculative attacks during the financial crises of 1998–99. After its loss of investment grade status in the third quarter of 1999, Colombia abandoned the currency band on 25 September—but not before the peso had lost a third of its nominal value. For the peso's standard deviation of 11 percent in 1998–2000, Colombia receives a score of 3.

Ecuador has suffered similar but broader problems. Like Colombia, it expanded its currency band in the face of speculative attacks during the 1998–99 financial crises. In February 1999 Ecuador dropped the currency band and allowed the sucre to float. In January 2000 the government decided to abandon the sucre and adopt the US dollar as its currency. Its standard deviation of 34 percent is the highest in the region and merits a score of 0.

Venezuela's bolivar was quite volatile in the mid-1990s, when the central bank devalued the currency by 41 percent in December 1995 and then adopted a 15 percent floating-band system. Currency volatility has stabilized somewhat since 1998. The bolivar's standard deviation of 5.2 percent over the 1998–2000 period earns Venezuela a score of 4.

Market-Oriented Policies. Most of the Andean countries continue to introduce market-oriented reforms. Bolivia earns a high score of 4.5 for its open foreign investment regime, steady progress in liberalizing trade, and comprehensive privatization program. Since 1994 the Bolivian government has capitalized the largest state-owned enterprises, including the national oil company, YPFB, for $834 million in December 1996 (Associ-

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ated Press *Newswire*, 6 December 1996) and ENTEL, the telephone company.[13] Bolivia has also implemented policies aimed at attracting investment to the hydrocarbon, electricity, and telecommunication sectors. In 1998, with IMF help, it began to overhaul its customs system, in part to stem the high rate of customs-duty evasion. The Sanchez de Lozada administration also enacted mining and hydrocarbons laws, improving openness, transparency, and tax provisions for foreign investors in two of the economy's main sectors.

Colombia, which earns a score of 4.0, with a few exceptions maintains a liberal foreign investment regime. Its privatization program accelerated in 1996 with the sale of several hydropower plants. In 1997 the government sold the two major electricity companies, Emgesa and Codensa, for a total of $2.18 billion; the gas distribution company, Gas Natural; and a concession to operate part of the national railway (*Financial Times*, 17 September 1997, 18). In late 1997 the government deregulated the telecommunications sector, ending the monopoly enjoyed by state-owned Telecom, but it continues to limit competition by maintaining stringent conditions on market entry.

Peru has made the most dramatic improvement in this area, increasing its score from 2 to 3.5. While Peru maintains some restrictive trade measures, it has taken substantial steps to eliminate price controls, improve its investment regime, and privatize state-owned enterprises. While there have been some delays in privatizing two electricity companies and units of Petroperu, in 1996 the government privatized EGENOR and the La Pampilla oil refinery and sold its remaining stake in Telefonica del Peru; together, the sales raised approximately $1.6 billion (World Bank 1998).

Venezuela's market-oriented policies receive a score of 3, down from 4 in 1994. Venezuela has one of the longest-running privatization programs in the hemisphere. In recent years, however, several factors—political opposition, poor administration, and the need to restructure the overwhelming debt burdens of many state-owned enterprises—have caused long delays in some of the largest privatization projects, most notably the sale of aluminum plants held by the state holding company, Corporación Venezolana de Guyana (CVG).

Ecuador's score also has fallen since 1994, from 3 to 2.5. Ecuador has made little progress in privatization of state-owned enterprises and continues to limit or exclude foreign investment in many sectors. Corruption and administrative inefficiency, as well as lack of transparency in the legal and regulatory systems, have contributed to the deterioration in the investment climate. In 2000, as part of its Economic Transforma-

13. Capitalization involves giving a strategic investor a 50 percent stake in the privatized company in return for management control and direct investment in the enterprise; the other 50 percent is distributed to the public in the form of stock placed in the accounts of the newly privatized pension system.

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tion Act, Ecuador committed to increase its value-added tax and reform its labor laws; however, as of April 2001, these reforms had not yet been implemented.

Reliance on Trade Taxes. Except for Ecuador, the Andean countries derive just under 10 percent of current tax revenue from taxes on international trade (table 2.10). This ratio has remained virtually unchanged since the first half of the decade and earns each country a score of 4. In contrast, Ecuador's dependence on trade taxes has increased and probably is higher than the latest published data (1997), so its score of 3 is probably inflated.

Policy Sustainability. Among the Andean countries, Colombia with .764 and Venezuela with .770 have the highest HDI rankings. Both are considered in the upper scales of "medium human development" countries, reflecting their relatively high life expectancy, literacy, school enrollment, and per capita GDP. However, Venezuela's score is downgraded due to two coup attempts in 1992, suspensions of constitutional rights in the mid-1990s, and political and economic volatility; Colombia's score suffers due to narcotics-related corruption and political violence. As a result, each receives a score of 3.25.

The highest overall score, 3.38, goes to Ecuador. However, its current rating exaggerates the present state of political and civil liberties in that country. Recent events, including demonstrations in response to economic reform measures, banishment of the president, and broad accusations of corruption undoubtedly will worsen this score in the future.

Bolivia has the lowest HDI score because approximately 70 percent of the population is living in poverty. However, Bolivia earns higher marks for political and civil liberties. The government of Bolivia has taken measures to expand inclusion and transparency in decision-making through programs such as National Dialogue 2000, in which representatives of civil society analyze the allocation of debt relief funds (ECLAC 2000a, 33).

The lowest overall score in the region, 2.75, goes to Peru. Its HDI classifies it as a medium development country, but it gets low marks for civil and political freedom under the former Fujimori administration.

Readiness of the Central American Countries

Since the Summit of the Americas in 1994, the five members of the Central American Common Market and Panama have taken further positive steps to strengthen their economic growth and improve their overall readiness for economic integration. Central America is the only region in which none of the countries decreased in ranking or in score. Despite slowdowns in growth in 1996 and in 2000, the region experienced an average annual growth rate of nearly 4 percent from 1995 to 2000.

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The region has been helped economically by peace agreements in countries that were previously engulfed in civil wars. El Salvador experienced a dramatic four-year period of growth after signing the Chapultepec Peace agreement in 1992. Guatemala also has benefited from the Agreement for a Firm and Lasting Peace, which went into effect in 1997, ending several decades of civil strife. Strong performance in nontraditional export sectors contributed to average growth rates of 4.1 percent in Guatemala, 3.6 percent in El Salvador, and 3 percent in Honduras between 1995 and 2000. These three countries suffered the most from Hurricane Mitch in 1998 and El Niño in 1997, and also were affected by falling coffee prices in the latter part of the 1990s.

Nicaragua posted the strongest GDP gains in the region, with average annual growth of 5 percent that has helped the difficult recovery from the civil unrest of the previous decade. Costa Rica also recorded strong growth, with GDP gains of 8 percent in 1998–99. This was due in large measure to Intel's 1997 investment, which boosted foreign investment as well as exports. Since the Miami Summit, the Costa Rican economy has averaged 4.6 percent annual growth. Last but not least, Panama maintained a steady, if not stellar, economic performance throughout the period, with average annual growth of 3.2 percent.

Unfortunately, remnants of earlier civil unrest are reflected in two continuing problems. First, foreign investors have been hesitant to return to the region, except for Costa Rica, until the economic and political reforms of the past decade are solidified. Second, urban unemployment remains high, between 13 and 15 percent in Panama and Nicaragua; both countries have made only minor progress in reducing this problem since the mid-1990s.

Price Stability. Overall, the Central American countries have made noteworthy progress in bringing inflation under control (table 2.4). Nicaragua has made the greatest strides, moving from an average annual inflation rate of 296 percent and a score of 0 in 1994 to a rate of 11 percent and a score of 4 in 1998–2000. El Salvador succeeded in reducing its annual inflation rate from 14 percent to 2 percent, earning it a score of 5.

Costa Rica's progress has been more uneven, though generally improving since the mid-1990s. Recent increases in fuel prices and telephone and public transport rates have led to annual inflation of more than 10 percent, earning the country a score of 4. Similarly, Honduras and Guatemala have cut inflation in half since the mid-1990s; both receive a score of 4. Panama continues its excellent performance, with average inflation of 1.4 percent earning it a score of 5.

Budget Discipline. All the Central American countries except Nicaragua run deficits on average of 2 to 3 percent of GDP (table 2.5), and receive

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a score of 4. The deficits are somewhat higher than in the early 1990s, except for Honduras and El Salvador.

The Honduran government deficit fell from 10 percent of GDP in 1993 to 1.5 in 1997, thanks to improved spending discipline (cutting thousands of employees from bloated public payrolls), tax administration, and other measures under an agreement with the IMF. Progress in this area was set back, however, by the revenue shortfall and increased expenditures to repair the damage from Hurricane Mitch in 1998. Nonetheless, its three-year average deficit for 1998–2000 was 2.7 percent, less than half that of 1991–95.

El Salvador has averaged budget deficits of 2.2 percent of GDP throughout the decade, despite extraordinary expenditures related to Hurricane Mitch. However, the government now faces renewed budget pressures due to recent earthquakes and outstanding pension claims.

Costa Rica's budget deficit fell from 4.7 percent in 1994—sparked by increased wage expenditures and interest payments—to 1.1 percent in 1998, but has grown again in subsequent years, despite a rise in government revenues. Increases in public sector salaries and debt-service payments contributed to the increase.

Guatemala's budget was almost in balance throughout the 1990s. In 1998, however, expenditures grew by over a third due to public sector pay raises; increased spending on health, education, and low-income housing; and increased debt-service costs. The government deficit rose to 2.2 percent of GDP despite a 15 percent increase in tax receipts. Much of the spending on social programs addressed economic commitments made in conjunction with the peace accords. To date, fiscal reforms have not succeeded in raising tax revenues to the target level of 12 percent of GDP by 2002 to pay for these programs (*The Economist*, 24 February 2001, 38).

Panama has run small deficits throughout the 1990s, except for 1998, when the deficit rose above 5 percent as a result of falling agricultural prices and a reduction in demand for products from the Colón free zone from Latin American trading partners who were affected by the various financial crises. The deficit came back down in 1999–2000 to 2.3 percent, reducing the three-year average to 3.4 percent—good for a score of 4.

Nicaragua's performance has weakened considerably since 1991. It has moved from a score of 5 in 1994 to a 3 for the 2001 indicators. A 1997 tax reform package designed to broaden the tax base and improve transparency and efficiency led to a considerable increase in tax receipts, but the improvement was offset by outlays to redress Hurricane Mitch damage and by election spending in 2000. The country's overwhelming debt obligations also continue to strain Nicaragua's public finances.

Gross National Savings. Panama and Honduras score highest in Central America (table 2.6). In 1998–2000, both countries averaged gross national savings of about 21 percent annually, earning each a score of 3. With

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average savings to GDP ratios of 17 percent for Costa Rica and 15 percent for El Salvador, both earn a score of 2. Savings in Guatemala and Nicaragua remain anemic, earning each a score of 1, although Nicaraguan savings have risen from the negative rates recorded in the first half of the decade.

External Debt. Most of the Central American countries have their debt service under control (table 2.7), with Costa Rica, El Salvador, Guatemala, and Panama receiving scores of 5. The most improved country on this indicator is Honduras, whose Paris Club renegotiations under Naples terms, for which the poorest debtors are eligible, have brought its debt-to-exports ratio from 311 in 1991–93 to 178 percent in the most recent three-year period. It receives a score of 4.

At the other extreme is Nicaragua. Although Nicaragua has improved its external debt position, it remains the most indebted country in the region and continues to receive a score of 0 for its three-year average debt/export ratio of 750 percent (albeit *down* from the astronomical average of almost 3,300 percent in the early 1990s). In April 1998, Nicaragua secured $1.8 billion in aid from a group of donor governments and in 1999 was granted a postponement of debt service from the Paris Club for 1999–2001, and forgiveness from Cuba, Austria, and Canada of total debt of $99.5 million.

Currency Stability. Central America does remarkably well in this category (table 2.8), with all countries but Guatemala achieving scores of 5. Nicaragua's crawling peg and Costa Rica's daily adjustments have successfully steadied their currencies. To decrease currency fluctuations even further, the government of El Salvador in late 2000 announced that it would adopt the US dollar as the national currency, as Panama has. Its monetary integration act fixes the exchange rate at 8.75 colones to the dollar and adopts the dollar as the unit of account in the financial system as of January 1, 2001.

Market-Oriented Policies. Most of the countries in Central America have been making steady progress in trade liberalization, privatization of state-owned enterprises, and deregulation of specific goods and services sectors (table 2.9). The Central American Common Market (CACM) has promoted the harmonization of tariff schedules, with the common external tariff (CET) ranging up to 20 percent and limited to a maximum of 15 percent for capital goods and raw materials. However, the CET still has a wide dispersion among tariff lines due to notable exceptions in national tariff schedules: for example, Nicaragua has a longer phase-in for the CET and Honduras has been given extra time to reduce its import surcharges.

El Salvador, Guatemala, and Honduras (the Northern Triangle) have negotiated FTAs with Costa Rica, Nicaragua, and Mexico. The Central

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American countries together concluded an FTA with Chile in 1999 and currently are negotiating with Panama. Costa Rica has also negotiated an FTA with Canada (signed in April 2001).

Costa Rica and El Salvador earn the highest scores in this indicator—both achieve a 4.5. The maintenance of an open foreign investment regime and aggressive trade liberalization earned Costa Rica its high score. Since 1995 authorities have lifted most price controls, ended the state monopoly on savings and checking accounts, and reformed the tax system. However, planned telecommunications privatization has been delayed and the state still plays an active role in electricity and some financial services.

El Salvador's score reflects the comprehensive reform program introduced in late 1994, under which authorities have eliminated tariffs on raw materials and capital goods and substantially reduced other tariffs. The government also adopted a private pensions system and privatized the two main electricity distribution companies as well as the National Telecommunications Administration (ANTEL). In addition to the free trade agreement with Mexico, El Salvador participated in FTAs with the Dominican Republic, Panama, and Chile.

Panama receives a score of 4 for its generally market-oriented policies. Its investment climate has improved as a result of legislation passed in 1995 and 1996 promoting competition and offering investors fiscal incentives. In late 1997, as part of its accession to the WTO, the government lowered the maximum tariff to 15 percent and reduced import licensing and phytosanitary barriers. The number of steps in the tariff scale was reduced from 198 to 5. The government also has privatized telecommunications and several ports, as well as 49 percent of the hydroelectric and 51 percent of the thermal power companies. Banking reforms have been implemented, including the creation of a superintendent of banks. Panama has been negotiating FTAs with the other Central American countries, Chile, and Mexico.

Guatemala and Honduras each receive a 3. Despite some progress, both maintain numerous price controls and burdensome customs procedures. In Honduras a new mining law was passed in 1999 to attract foreign investment. In Guatemala, the average effective tariff has been lowered to 5.7 percent, and two electricity-generating plants and the telecommunications company were privatized in 1998.

Nicaragua receives the lowest score in the region, 2.5, which nonetheless is up significantly from the mid-1990s. Nicaragua still suffers from the overexpansion of the public sector during the Sandinista era; reforms have proceeded slowly and government corruption continues to hinder investment. Privatization has lagged and selective tariffs have been increased: in 1999 Nicaragua applied a 35 percent tariff against Honduras in a maritime border dispute; in 2000 duties on some sensitive products—powdered milk, rice, sorghum, and yellow corn—were raised above their ceiling rates of 10 percent. Nicaragua allows 100 percent foreign owner-

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ship but corruption, arbitrary enforcement of regulations, and inadequate infrastructure are disincentives to foreign investment. Legislation was passed privatizing the Banco Nicaraguense de Industria y Comercio and the last state-owned bank is approved for partial privatization. Approval was also granted for the privatization of the telephone and the electricity companies.

Reliance on Tariff Revenues. Except for Costa Rica, all countries in the region derive a substantial share of current revenues from taxes on international trade (table 2.10). Because Costa Rica reduced its dependence on trade taxes to less than 6 percent of total revenues in 1999, it earns a score of 4. El Salvador's reliance on trade taxes has declined significantly, from 17 to 11 percent, since the introduction of the 1995 tariff reforms—good for a score of 3. Guatemala earns 13 percent of current revenue from trade taxes, down from 20 percent in the mid-1990s, and also receives a score of 3. By sharply reducing its dependence on trade taxes from more than 30 percent in the early 1990s to 16 percent in 1998, Honduras earns a score of 2. Nicaragua and Panama still rely on trade taxes for a fifth of their current government revenue. Indeed, since the early 1990s those countries have become increasingly reliant on such revenues, causing their scores to drop from 2 to 1.

Policy Sustainability. Because both Costa Rica and Panama have relatively high standards of education and health and social welfare programs, they earn scores of 3.5 for their HDIs (table 2.11). Freedom House classifies both as relatively free countries in terms of civil and political liberties. The remnants of civil unrest earlier in the decade weigh down the performance of the other four countries, none of which achieves a score higher than 2.5 on the HDI.

However, significant recent progress in democratic reforms improves the scores of the other countries of the region on political rights and civil liberties, with El Salvador scoring a 3.8, Honduras and Nicaragua, 3.5, and Guatemala, 3.3. These scores reflect significant improvements since the Miami Summit. But when the two factors are combined, only Costa Rica and Panama receive high scores—4—for the policy sustainability indicator. The other scores range from 3.13 for El Salvador to 2.63 for Guatemala.

Readiness of the Caribbean Countries

Since the 1994 summit, most countries in the Caribbean Basin have recorded solid growth and continue to make modest progress in reducing inflation, budget deficits, and barriers to trade and investment. GDP-weighted economic growth in the Caribbean region averaged almost

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5 percent annually from 1995 through 2000—due primarily to the excellent performance of the Dominican Republic, which represents almost half of Caribbean GDP and grew at an annual average of 7.7 percent. In addition, Trinidad and Tobago grew by 4.5 percent a year since 1994, spurred by dynamism in agriculture and construction and the recent revival of the energy sector. However, job creation has not kept pace with growth in these two countries; in 2000 the Dominican Republic had an unemployment rate of 13.9 percent and in Trinidad and Tobago the unemployment rate was 12.8 percent (ECLAC 2000a).

The small countries of the Organization of Eastern Caribbean States—Antigua and Barbuda, Dominica, Grenada, St. Kitts, St. Lucia, and St. Vincent—have also performed relatively well despite widespread hurricane damage and banana trade wars. Most registered average annual growth rates of 3 to 5 percent over the 1995–2000 period (see table 1.1).

Despite the general economic expansion in the region, a few countries have lagged behind their neighbors. Economic growth in Jamaica has been stagnant throughout the 1990s, and actually contracted slightly in 1995–2000. High real interest rates have exacerbated problems in the financial services sector and compounded poor performance in mining and manufacturing. Sluggish growth has been accompanied by high rates of unemployment, which in 2000 equaled almost 16 percent of the workforce (ILO 2000). Unemployment, in turn, has exacerbated the country's urban crime problems.

Haiti remains the poorest country in the hemisphere. It has recovered only slowly from the 1991 military coup and subsequent economic sanctions imposed by the United Nations to oust the regime of Raoul Cedras. Haiti's economy recorded negative growth for the decade of the 1990s, even though GDP grew by an average of 2.5 percent annually from 1995 to 2000. Not surprisingly, Haiti is the least prepared for economic integration; its readiness score is only 1.97. Haiti's problems seem intractable and its prospects for growth uncertain.

Many countries in the Caribbean remain vulnerable to boom-bust cycles due to their heavy reliance on a single commodity or service, such as oil (Trinidad and Tobago), tourism (the Bahamas), or bananas (much of the region). One only has to look to the experience of Trinidad and Tobago in the 1980s, when the sudden decline in oil prices transformed a period of unprecedented prosperity into nearly a decade of negative growth, to realize that the continuation of diversification of economic output will be integral to the stability and growth of these countries in the years to come. Countries need to

- diversify away from single crops or commodities,
- increase value-added services and light manufacturing,
- extend fiscal reforms,

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- diversify the tax base, and
- boost investment in infrastructure.

FDI is particularly important for the future growth of the region. In 1994–98, St. Vincent, Trinidad and Tobago, Guyana, St. Kitts, and St. Lucia all relied on FDI inflows for 25 to 50 percent of gross fixed capital formation (UNCTAD 2000). FDI inflows into the Caribbean region have grown from an annual average of $1.1 billion in 1994–96 to $2.8 billion in 1997–99. However, some of the smaller island nations (Dominica, St. Vincent, and Antigua and Barbuda) have had a decline in FDI during this period. The region clearly needs to continue to attract FDI; to that end it should accelerate the pace of national privatization programs particularly in telecommunications and other infrastructure sectors.

Price Stability. Inflation is under control throughout most of the Caribbean region (table 2.4). The Bahamas, Barbados, Belize, Trinidad and Tobago, and the six Eastern Caribbean countries, all with traditions of low inflation, recorded three-year average annual inflation rates of less than 5 percent, earning each a 5. However, both St. Kitts and St. Lucia have had a sharp run-up in prices over the past two years that, if not abated, will yield a lower score in coming years.

The Dominican Republic, Guyana, and Jamaica have made solid progress in combating inflation; their three-year average rates of less than 10 percent earn scores of 4. Jamaica has achieved the most dramatic reduction in inflation, in sharp contrast to its problems in other areas of the economy. In 1997 its consumer price index fell to single digits for the first time in nearly a decade; its inflation in 1998–2000 averaged 8 percent (compared to 40 percent in the first half of the decade). It scores a 4. Haiti also earns a score of 4 for price increases that averaged 11 percent in 1998–2000, although that score is at risk because the inflation rate has moved up sharply from its low point in 1998 to 15.3 percent in 2000.

The outlier in the region is Suriname. After years of triple-digit inflation caused by economic mismanagement and political instability, in January 1996 the central bank pegged the guilder to the US dollar to stabilize prices. The exchange rate peg and the return of fiscal discipline in 1995 together brought the inflation rate down to 1.2 percent in 1996. However, in 1997 inflation rose to 17.4 percent and spiraled above 100 percent in 1999. For the period 1997–99, inflation averaged 51 percent and Suriname's readiness score fell to 0 on this indicator.

Budget Discipline. On the whole, the Caribbean countries perform quite well on the budget discipline indicator (table 2.5). Trinidad and Tobago and St. Lucia earn scores of 5 for maintaining, on average, small central government budget surpluses over the past three years. Five other

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countries also receive high marks for small deficits between 1 and 3 percent of GDP.

Interestingly, this indicator is one area where Haiti has done well. Steps taken in 1995 to enhance revenues and reduce tax evasion—together with efforts to control expenditures—have contributed to a sharp reduction of the deficit from over 4 percent in 1995 to an average of 1.7 percent in 1998–2000, and earn Haiti a score of 5.

The average budget deficits of Guyana (4 percent), Dominica (4.7 percent), and Jamaica (4.2 percent) earn those countries scores of 3. Jamaica's improvement in this area has been notable since 1996, when the government spent hundreds of millions of dollars to restructure the troubled financial services sector and bail out several of the country's leading banking and insurance institutions (see, for example, *Financial Times*, 25 February 1998, 5). As a result, Jamaica's budget deficit soared to 9.2 percent in 1996. Higher consumption taxes in 1999 contributed to a gradual reduction of the fiscal deficits, which averaged 4.2 percent in 1998–2000.

After a brief period of fiscal probity, Suriname has returned to its profligate ways. Its budget surplus in the mid-1990s was eroded by wage hikes and subsidies that contributed to an average deficit of 7.6 percent in 1997–99, earning it a score of 1.

Gross National Savings. Savings performance in the Caribbean countries (table 2.6) is mixed (data are not available for the Bahamas). Grenada, which recorded a three-year-average gross national savings rate of 27 percent for the period 1995–97, the highest in the hemisphere, earns a score of 5. Jamaica earns a 4 for its savings-to-GDP ratio of 25.4 percent in 1998–2000, a substantial improvement from the first half of the decade. The Dominican Republic with average savings of 21 percent and Dominica with 22 percent also earn scores of 3. Barbados, Belize, Trinidad and Tobago, Guyana, and St. Kitts each earn 2 for average savings rates between 13 percent and 18 percent. However, the latter two countries sharply reduced their savings in 1999–2000 to 10 percent, and risk sliding down our readiness scale.

By contrast, several countries face more serious savings shortfalls. The persistently low savings rates of St. Lucia at 11.9 percent and St. Vincent at 8.6 percent earn scores of 1. Suriname also receives a 1; however, its savings fell dramatically from 24 percent in 1997 to 5.4 percent in 1998–99 and is likely to join Haiti at the bottom of our scale when data for 2000 are available. Haiti receives a score of 0 for a dismal 1998–2000 average savings rate of 3.9 percent.

External Debt. Most countries in the region have maintained low and manageable debt-to-exports ratios over the past three years (table 2.7). During the debt crisis of the 1980s, few Caribbean countries accrued the magnitudes of debt accumulated in other parts of Latin America. More-

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over, many Caribbean nations—including the Dominican Republic and Barbados—have steadily reduced external debt during this period. St. Vincent is the only country that substantially increased its debt service burden; its average debt-to-exports ratio rose to 198 in 1996–98 from 64 in the early 1990s, dropping its score from 5 to 4.

Except for St. Vincent, Guyana, and Haiti, all countries in the region earn scores of 5 for their debt-to-export ratios of less than 150 percent. Guyana and Haiti continue to suffer from heavy debt burdens, but both have reduced their debt ratios by more than half, to 228, from the first half of the decade. Their scores thus rise from 0 to 3. In the mid-1990s the Paris Club granted both countries a debt reduction package at Naples terms, for which the poorest debtors are eligible. Guyana further reduced its debt in December 1997, when the IMF and the World Bank approved a reduction package under the HIPC Initiative.

Currency Stability. Most of the Caribbean countries experienced very little real exchange rate volatility throughout the 1990s; all but Dominica and Guyana earn scores of 5 for currency stability during the most recent three-year period (table 2.8). The six members of the Eastern Caribbean Central Bank have had their currency, the Eastern Caribbean dollar, pegged to the US dollar since 1976; combined with low inflation rates this has limited real exchange rate movements to very narrow bands. The same holds for Barbados.

The currencies of other Caribbean countries have remained stable since the early 1990s, when they devalued or introduced market-determined exchange rates as part of economic reform programs. For instance, when Trinidad and Tobago allowed the dollar to float in 1993, the real exchange rate depreciated sharply; since then it has remained quite stable. Jamaica's real exchange rate has appreciated markedly since 1992, particularly since monetary policy was tightened in 1994, but was relatively stable in 1998–2000. Even Haiti has maintained a fairly stable real exchange rate since 1997.

Market-Oriented Policies. Most Caribbean countries have made slow but steady progress in opening their economies to competition and private sector participation (table 2.9). On our market-oriented policies scale, only Barbados and Trinidad and Tobago earn a score of 4. Trinidad and Tobago has eliminated stamp duties, lowered the general customs tariff, and privatized the airline, flour mills, and the water company. Barbados has introduced extensive tax reforms and maintains an open investment regime.

Several countries have improved their scores modestly since 1994. The Dominican Republic has made the most progress, increasing its score to 3.5 from 2 in 1994. This upgrade reflects the adoption of laws opening the foreign investment regime and allowing for partial privatization of

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30 state-owned enterprises. However, corruption and red tape continue to impede the enforcement of laws and regulations and the tariff range—5 to 35 percent—remains wide.

The market-oriented indicator for the Bahamas, Belize, Jamaica, St. Kitts, and St. Lucia has improved from 3 to 3.5. The Bahamian government has divested all but one of the largest hotels and further liberalized its investment regime. Jamaican authorities have privatized state-owned enterprises and streamlined customs procedures.

Haiti with a score of 1 and Suriname with 1.5 fare worse than their neighbors on this indicator; their scores are the lowest in the hemisphere. Although they have made some progress in removing or reducing subsidies, quotas, and tariffs, both governments continue to dominate their economies, many price and exchange controls remain in place, and their business climates are unfriendly. Guyana's score of 2 reflects its reluctance to implement the ambitious privatization program stipulated by agreements with the IMF and World Bank.

Reliance on Trade Taxes. As a whole, the Caribbean countries rely more heavily on trade taxes as a source of current revenue than any other region in the hemisphere (table 2.10). Because the six Eastern Caribbean States, the Bahamas, Belize, the Dominican Republic, Jamaica, and Suriname all depend on trade taxes for more than 25 percent of current government revenue, they each earn a score of 0. The Bahamas, Dominica, and St. Vincent rely on such taxes for more than 40 percent of their current tax revenues.

Trade reforms since the early 1990s have had very little impact on reliance on trade taxes within the region. St. Lucia and St. Vincent have phased out foreign exchange taxes, but have offset the loss in tax revenue with increases in other trade-related taxes, such as the customs service fee.

Taxes on international trade account for only 9 percent of current revenues for Barbados and 7 percent for Trinidad and Tobago, earning them scores of 4, the highest in the region. Both derive a larger share of revenues from corporate, consumption, and income taxes. Barbados' score has improved since 1997, when a value-added tax replaced various trade and other taxes. Trinidad and Tobago receives nearly a quarter of its current revenue from oil-related sources, including taxes on oil corporations.

Policy Sustainability. Most Caribbean countries have relatively high standards of social and political development (table 2.11), as measured by the UN Human Development Index (HDI) and the Freedom House index of civil liberties and political rights. Barbados and the Bahamas receive both the highest HDI rankings in Latin America and the Caribbean and top scores for democratic governance and freedom of expression, so Barbados earns 4.75 and the Bahamas 4.5 for this indicator. Belize, Dominica, Trinidad and Tobago, Grenada, and St. Kitts receive scores of 4.00 to 4.25

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for HDIs of .775 to .799, fair elections, protection of constitutional rights, and freedom of expression. St. Lucia and St. Vincent receive high marks on the Freedom House rankings but lower HDI grades, cumulating in a score of 3.75.

Antigua and Barbuda (3.63), Jamaica (3.50), the Dominican Republic (3.38), Suriname (3.50), and Guyana (3.50) earn lower policy sustainability scores because their political and civil rights records are weaker. Problems in these countries include fraudulent elections in the Dominican Republic, police brutality in Guyana, narcotics-related and politically motivated violence in Jamaica, and a weak judiciary and dangerously overcrowded prisons in Suriname (Freedom House 1997).

Haiti trails the rest by a wide margin with a policy sustainability score of 1.00. Haiti is among the 20 least developed countries in the world, as evidenced by its low HDI of .440. In addition, it has been plagued by political instability, violence, and military interference in government affairs. Haiti's political rights rating has improved since 1994, from a very low base, as a result of greater public participation in the political process, even though international observers continue to criticize the conduct of elections.

Readiness of the Chilean and Mexican Economies

Economic reforms in Chile and Mexico date back to the early to mid-1980s and underpin the relatively strong performance of those economies compared to their Latin American trading partners. At the time of the Miami Summit, they ranked first and second, respectively, on the readiness scale. Both improved their scores since then, though they have fallen slightly in the rankings (table 2.3).

Chile receives the second highest readiness score in the LAC region. Economic growth has been robust with average annual growth of 5.6 percent from 1995 to 2000 despite a small recession in 1999. This strong performance has been abetted by sharp increases in FDI in the copper industry and in energy and transport networks linking the Chilean market to its Mercosur neighbors. However, its current account deficit has been deteriorating due to slower growth in Asia (and more recently North America and Europe), which has precipitated a prolonged decline in copper prices—Chile's main export—to below 75 cents per pound in April 2001 (Economist Intelligence Unit, *Business Latin America*, 7 May 2001).

Mexico's progress has also been dramatic but more erratic than that of Chile. As noted earlier, Mexico was beset with a severe currency crisis immediately after the Miami Summit, which led to a deep recession in 1995. GDP declined by more than 6 percent, inflation soared above 50 percent, and real wages plummeted. But Mexico's recovery has been impressive. From 1996–2000, Mexico has averaged 5.5 percent annual growth, infla-

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tion has been reduced again to single digits, employment has increased substantially, and real wages in manufacturing have rebounded.

Price Stability. During the 1970s, Chile suffered from triple-digit inflation; in the 1980s inflation rates of 20 to 30 percent were the norm. Since new budget disciplines were imposed in 1994, however, inflation has been in single digits and generally declining. Chile's score improved from 4 to 5 with annual inflation averaging 3.8 percent from 1998 to 2000 (table 2.4). Mexican inflation has declined sharply since 1995, when its currency devaluation, a highly restrictive monetary policy, and increased value-added taxes caused a spike in the inflation rate. Since then Mexican officials have restrained spending and eased monetary policy grudgingly and slowly. In 2000, inflation fell below 10 percent for the first time since the peso crisis; Mexico's three-year average annual inflation rate of 13 percent earns a score of 4.

Budget Discipline. Until 1999, Chile was one of the few countries in the region with a recurrent central government budget surplus. Years of rapid economic growth and tax reform—including tax increases on fuel and cigarettes and measures to close loopholes—augmented government revenues. However, weak copper prices and the economic slump in the Mercosur led to small deficits in 1999–2000. From 1998 to 2000, Chile's budget deficit averaged 0.4 percent and it maintains its score of 5 (table 2.5). Similarly, Mexico has maintained tight budget discipline throughout the 1990s, in sharp contrast to the double-digit deficits of the previous decade. It rates a score of 5 for its average deficit of 1.1 percent of GDP over 1998–2000. However, this good performance does not account for the extensive liabilities related to the restructuring of the banking system, which will burden fiscal policy in coming years.

Gross National Savings. Chile recorded relatively high national savings due to public sector surpluses, an innovative private pension system, and tax reforms that spurred corporate savings. High national savings have helped sustain capital formation at a rate of 25 percent of GDP, which has been a driving force of the country's economic growth. Although Chile's savings rate has declined from an annual average of more than 25 percent of GDP in the first half of the 1990s to 21.4 percent in 1997–99, it earns a score of 3 (table 2.6). Mexico's savings rate has increased substantially since the early 1990s and has exceeded 20 percent since 1996. Its 1997–99 average savings rate of 21.7 percent also earns a score of 3, up from 2 earlier in the decade.

External Debt. Prudent debt management has helped maintain Chile's external debt burden at a small and manageable level. Its debt-to-exports ratio averaged 169 percent from 1998–2000, earning a score of 4 (table 2.7).

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However, the debt-to-exports ratio increased from 114 percent in 1995 to 176 percent in 1999 due to a sharp rise in private sector borrowing and stagnating export revenues before recovering a bit in 2000. Mexico's total disbursed external debt remains virtually unchanged since the Miami Summit, but rapid export growth has significantly lowered its debt-to-exports ratio. Its three-year average debt ratio fell to 109 percent of GDP and its score improved to 5.

Currency Stability. Chile's real effective exchange rate index has been relatively stable since the mid-1990s. Its three-year standard deviation in the exchange rate index of 3.2 percent earns it a score of 5. After the currency volatility generated by the peso's depreciation in 1995 and then sharp appreciation in 1996, Mexico's currency has also stabilized to a significant extent. Its three-year standard deviation declined from over 15 percent in 1994–96 to 6.1 percent in 1998–2000, earning Mexico a score of 4.

Market-Oriented Policies. Chile is the only country in the LAC region to receive a score of 5 for its market-oriented policies (table 2.9). Its trade and investment regime is among the most open in Latin America. It maintains a uniform tariff schedule, with a single rate of 9 percent that is scheduled to fall to 6 percent by 2003. Moreover, Chile is an associate member of Mercosur and has signed FTAs with many countries in the hemisphere, so many imports benefit from tariff preferences or already enter the country free of duty. Like many countries, however, Chile still maintains some restrictions on investment in fishing and maritime services and on agricultural imports.[14]

Mexico has significantly liberalized its trade and investment policies as a result of extensive unilateral reforms since 1985 and obligations under the NAFTA and numerous other bilateral FTAs with other LAC countries and with the European Union. Moreover, Mexico generally avoided new trade restrictions in its response to the peso crisis,[15] and accelerated the implementation of investment reforms, particularly in financial services, to spur its recovery. It has also privatized several ports, rail lines, and satellites; however, it maintains state monopolies in oil and gas exploration and development and key petrochemicals. It earns a score of 4.5 for the extensive reforms implemented since the Miami Summit.

Reliance on Trade Taxes. During the 1990s, Chile relied on trade taxes for 7 to 10 percent of its current tax revenue (table 2.10). This ratio has

14. Chile's associate membership in the Mercosur provides for transition periods of up to 18 years for some farm trade barriers.

15. However, Mexico increased tariffs on textiles, apparel, and footwear from non-NAFTA countries to 35 percent during the peso crisis to provide import relief for domestic industries already adjusting to NAFTA reforms.

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fallen somewhat over the past several years as a result of various tax reforms, and should decline further as the uniform tariff rate is reduced gradually to 6 percent. From 1997–99, trade taxes accounted for 7.7 percent of government revenues, earning Chile a score of 4. Mexico also derives a small and declining proportion of current tax revenues from trade taxes. It receives a score of 5 for trade taxes that averaged only 4 percent of current revenues in 1996–98.

Policy Sustainability. Chile's democratic institutions are among the strongest in Latin America, and most laws limiting civil liberties and freedom of speech imposed during the Pinochet era have been eliminated. Chile's standard of living is one of the highest in the LAC region as well; the UN rates it as a "high human development" country. Chile earns a score of 4 for both its strong HDI ranking and its political/civil liberties indices (table 2.11). Mexico receives slightly lower scores on the HDI, which classifies it near the top of the "medium human development" countries, and on the Freedom House indices of political and civil liberties due to persistent crime and corruption. However, Mexico's political rights score should improve markedly due to the dramatic success of opposition parties in federal and state elections, especially the victory of Vicente Fox in the 2000 presidential campaign that ended seven decades of single party rule. Overall, Mexico receives a score of 3.38 for this indicator.

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Table 2.4 Price stability: December-December variations in the consumer price index

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Mercosur												
Argentina	84.0	17.6	7.4	3.9	1.6	0.1	0.3	0.7	−1.8	−0.7[a]	−0.6	5
Brazil	472.7	1,119.1	2,477.2	916.5	22.4	9.6	5.2	1.7	8.9	6.6[b]	5.7	4
Paraguay	11.8	17.8	20.4	18.3	10.5	8.2	6.2	14.6	5.4	9.5[b]	9.9	4
Uruguay	81.5	58.9	52.9	44.1	35.4	24.3	15.2	8.6	4.2	5.7[b]	6.2	4
Andean Community												
Bolivia	14.5	10.5	9.3	0.5	12.6	8.0	6.7	4.4	3.1	5.9[b]	4.5	5
Colombia	26.8	25.1	23.0	23.4	19.6	21.3	18.4	17.7	9.8	9.2[b]	12.2	4
Ecuador	49.0	60.2	31.0	25.4	22.8	25.5	30.7	43.4	60.7	104.9[b]	69.7	0
Peru	139.2	56.7	39.5	15.4	10.3	11.8	6.5	6.0	3.7	4.2[b]	4.7	5
Venezuela	31.0	31.9	45.9	70.8	56.6	103.2	37.6	29.9	20.0	15.1[b]	21.7	3
Central America												
Costa Rica	25.3	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.1	11.7[a]	11.4	4
El Salvador	9.8	19.9	12.1	8.9	11.4	7.4	1.9	4.2	−1.0	2.7[b]	2.0	5
Guatemala	9.2	13.7	9.1	11.6	8.6	10.9	7.1	7.5	4.9	4.3[b]	5.6	4
Honduras	21.4	6.5	13.1	28.9	26.8	25.4	12.7	15.6	11.0	10.9[b]	12.5	4
Nicaragua	865.6	3.5	19.5	11.3	10.9	12.1	7.3	18.4	7.2	9.2	11.6	4
Panama	1.1	1.7	1.0	1.3	0.8	2.3	−0.5	1.4	1.5	1.3[a]	1.4	5
Caribbean												
Antigua and Barbuda	n.a.	3.0	3.1	3.5	2.7	3.5	1.2	3.4	1.6	n.a.	2.1	5
Bahamas	6.5	3.7	2.4	1.5	1.6	1.1	0.8	1.9	1.4	1.7[b]	1.7	5
Barbados	8.1	3.3	−1.0	1.4	2.8	1.8	3.6	1.7	2.9	1.8[a]	2.2	5
Belize	2.3	2.3	1.4	2.6	2.8	6.4	1.1	−0.9	−1.3	2.0	−0.1	5
Dominica	2.0	4.4	1.7	−0.2	1.4	2.0	2.3	1.4	0.0	1.7[c]	1.0	5
Dominican Republic	7.9	5.2	2.8	14.3	9.2	4.0	8.4	7.5	5.1	5.7[d]	6.1	4

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Table 2.4 Price stability: December-December variations in the consumer price index *(continued)*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Grenada	1.1	4.7	3.5	1.8	2.1	3.2	0.8	1.3	1.0	1.0	1.1	5
Guyana	101.5	28.2	10.0	16.1	8.1	4.5	4.2	4.7	8.7	6.7[d]	6.7	4
Haiti	13.8	15.2	27.7	42.0	23.9	28.2	15.6	7.5	9.7	15.3[b]	10.8	4
Jamaica	80.2	40.2	30.1	26.8	25.6	15.8	9.2	7.9	6.8	9.4[c]	8.0	4
St. Kitts and Nevis	6.2	1.5	1.4	1.0	2.9	3.1	11.3	0.9	3.2	9.4[c]	4.5	5
St. Lucia	7.3	2.5	0.7	6.9	4.7	−2.3	1.9	4.6	6.0		4.2	5
St. Vincent and the Grenadines	2.3	0.5	5.0	0.0	3.1	3.6	0.8	3.3	−1.8	2.0	1.2	5
Suriname	30.0	57.5	224.9	586.5	37.0	1.2	17.4	22.9	112.7	n.a.	51.0	0
Trinidad and Tobago	2.4	8.5	13.4	5.5	3.8	4.4	3.5	5.6	3.4	3.8[e]	4.3	5
Mexico	18.8	11.9	8.0	7.1	52.0	27.7	15.7	18.6	12.3	8.9[b]	13.3	4
Chile	18.7	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3	4.5[f]	3.8	5

* Score

5: less than 5 percent
4: 5 to 15 percent
3: 15 to 25 percent
2: 25 to 35 percent
1: 35 to 45 percent
0: over 45 percent

n.a. = not available

Mercosur = Southern Cone Common Market.

a. Through August 2000.
b. Through September 2000.
c. Through July 2000.
d. Through March 2000.
e. Through May 2000.
f. Through October 2000.

Sources: IMF, International Finance Statistics Database, March 2001.

Antigua and Barbuda: IMF, *Staff Country Report* no. 99/146. Belize: IMF, Statistical Appendix, *Staff Country Report* no. 00/75. Grenada: IMF, Statistical Appendix, *Staff Country Report* no. 00/101. St. Lucia: IMF, Statistical Annex, *Staff Country Report* no. 99/38. St. Vincent and the Grenadines: IMF, *Public Information Notice* (PIN) no. 00/96, 13 November 2000. Suriname: IMF, *Public Information Notice* (PIN) no. 99/80, 19 August 1999. Nicaragua: ECLAC, *Balance Preliminar de las Economías de América Latina y el Caribe*, 2000, Cuadro A-4.

Table 2.5 Budget discipline: Nonfinancial public sector surplus/deficit (as percent of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Mercosur												
Argentina	−1.6	−0.1	1.5	−0.3	−0.6	−1.9	−1.5	−1.4	−1.7	−2.0	−1.7	5[a]
Brazil[1]	−0.2	−1.8	−0.8	1.1	−4.8	−3.8	−4.3	−7.4	−3.4	n.a.	−5.0	2[b]
Paraguay	2.9	0.1	1.2	2.4	2.5	1.7	0.4	0.2	−3.2	−2.2	−1.7	5[a]
Uruguay	1.4	1.4	−0.8	−2.4	−1.3	−1.1	−1.3	−0.5	−3.5	−4.0	−2.7	4[a]
Andean Community												
Bolivia	−4.2	−4.4	−6.0	−3.0	−1.8	−1.9	−3.3	−4.0	−3.9	−4.0	−4.0	3[a]
Colombia	0.2	−0.2	0.1	1.0	−0.6	−2.0	−3.1	−3.4	−6.0	−3.6	−4.3	3[a]
Ecuador	−0.6	−1.2	−0.1	0.6	−1.1	−3.0	−2.5	−5.6	−4.6	−1.0	−3.7	3[a]
Peru	−0.9	−1.5	−1.2	3.0	−2.8	−1.0	0.0	−0.5	−1.2	n.a.	−0.6	5[c]
Venezuela	−2.2	−5.9	−1.3	−13.8	−6.8	7.2	2.6	−6.6	−1.2	3.4	−1.5	5[a]
Central America												
Costa Rica	−0.1	0.7	0.6	−4.7	−2.1	−3.2	−1.5	−1.1	−2.7	−2.6	−2.1	4[a]
El Salvador[2]	−3.2	−2.1	−1.5	−0.8	−0.5	−2.0	−1.1	−2.0	−2.2	−2.5	−2.2	4[a]
Guatemala[2]	−0.1	−0.5	−1.5	−1.4	−0.5	0.0	−0.8	−2.2	−2.8	−2.5	−2.5	4[a]
Honduras[2]	−3.3	−4.9	−9.9	−7.0	−4.2	−3.8	−2.9	−1.1	−2.9	−4.0	−2.7	4[a]
Nicaragua[2]	4.1	−3.4	0.0	−5.2	−0.5	−1.5	−1.3	−1.8	−4.5	−5.5	−3.9	3[a]
Panama[2]	−2.5	1.3	0.5	−0.8	0.9	−1.3	−0.9	−5.4	−2.3	−2.4	−3.4	4[a]
Caribbean												
Antigua and Barbuda[2]	−3.2	−0.8	−2.8	−5.1	−6.5	−3.6	−7.3	−4.3	−6.8	n.a.	−6.1	2[c]
Bahamas[2]	−4.3	−2.8	−1.5	−0.7	−1.2	−3.7	−1.8	−1.3	−1.1	n.a.	−1.4	5[b]
Barbados[2]	−1.9	−2.5	0.0	−1.9	0.9	−3.4	−0.9	−1.2	−1.3	−1.1	−1.2	5[c]
Belize[2]	−3.2	−3.4	−6.7	−6.5	−3.4	−2.5	−2.4	−3.8	n.a.	n.a.	−2.9	4[c]
Dominica	−6.7	−2.4	−0.1	−4.4	2.3	0.5	−2.7	−2.5	−9.0	n.a.	−4.7	3[c]

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Table 2.5 Budget discipline: Nonfinancial public sector surplus/deficit (as percent of GDP) *(continued)*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Dominican Republic[2]	3.4	3.4	0.3	−0.6	1.1	0.0	0.9	0.6	−0.4	−1.5	−0.4	5[a]
Grenada[3]	n.a.	1.4	2.5	−3.2	−0.6	−3.7	−6.1	−3.1	−2.5	−2.9	−2.8	4[b]
Guyana[2]	−24.3	−17.4	−6.9	−1.5	−3.3	1.2	−3.0	−4.8	−1.0	−6.3	−4.0	3[c]
Haiti[2]	−3.1	−4.7	−3.2	−3.3	−4.3	−2.5	−0.6	−1.3	−1.3	−2.4	−1.7	5[c]
Jamaica[2]	4.4	4.2	3.5	3.6	1.9	−9.2	−8.1	−7.3	−4.3	−1.0	−4.2	3[b]
St. Kitts and Nevis[2]	−2.7	−1.4	−0.7	0.3	0.9	−3.9	−3.7	−6.5	−5.7	−8.6	−6.9	1[b]
St. Lucia	n.a.	3.5	−0.2	0.5	2.1	2.2	0.9	1.1	0.1	n.a.	0.7	5[c]
St. Vincent and the Grenadines[2]	−1.7	−5.3	−2.8	−1.1	0.5	0.1	−4.4	−1.4	−1.4	−2.1	−1.6	5[c]
Suriname[2]	−17.4	−8.7	−9.4	4.1	1.6	2.3	−5.2	−11.1	−6.5	n.a.	−7.6	1[c]
Trinidad and Tobago[2]	−0.2	−2.8	−0.2	0.0	0.2	−0.5	0.1	1.6	−0.5	0.0	0.4	5[b]
Mexico	3.3	1.6	0.7	−0.3	−0.2	−0.1	0.6	−1.2	−1.1	−1.0	−1.1	5[a]
Chile[2]	1.5	2.3	2.0	1.7	2.6	2.3	2.0	0.4	−1.5	−0.1	−0.4	5[a]

* Score:
5: surplus to deficit of 2 percent
4: 2 to 3.5 percent deficit
3: 3.5 to 5.0 percent deficit
2: 5.0 to 6.5 percent deficit
1: 6.5 to 8.0 percent deficit
0: over 8.0 percent deficit

n.a. = not available
Mercosur = Southern Cone Common Market.

1. Operational balances of the nonfinancial public sector.
2. Central government surplus/deficit.
3. Public sector surplus/deficit.

Sources:
a. ECLAC, *Balance Preliminar de las Economías de América Latina y el Caribe,* 2000, Cuadro A-7.
b. IMF, *Staff Country Reports*, various dates.
c. IMF, *Press Information Notes* (PIN), various dates.

Table 2.6 Gross national savings (as percent of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Mercosur												
Argentina	13.1	13.0	15.3	16.3	16.0	15.7	15.3	15.1	14.8	14.1	14.7	2[a]
Brazil	19.2	21.2	20.4	20.6	19.7	17.9	17.7	16.9	15.7	16.6	16.4	2[a]
Paraguay	19.5	13.2	15.3	13.7	12.1	18.2	21.1	21.7	20.3	n.a.	21.0	3[b]
Uruguay	13.9	12.3	12.1	11.0	11.9	13.5	12.6	12.9	12.1	11.9	12.3	2[a]
Andean Community												
Bolivia	8.6	5.6	5.7	10.7	10.9	11.0	12.9	12.1	12.1	12.9	12.4	2[b]
Colombia	22.9	19.1	17.2	18.6	20.8	17.3	15.5	13.7	14.0	16.0	14.6	2[b]
Ecuador	16.1	19.5	16.4	14.1	14.6	16.6	16.6	13.7	17.5	19.2	16.8	2[a]
Peru	13.8	11.7	13.4	16.9	17.1	17.4	19.2	18.5	17.9	n.a.	18.5	3[a]
Venezuela	22.0	17.5	15.4	17.6	18.9	29.4	24.8	16.8	n.a.	n.a.	24.4	4[b]
Central America												
Costa Rica	23.4	23.8	21.6	13.5	15.1	14.7	17	17.8	17.3	n.a.	17.4	2[b]
El Salvador	11.4	15.2	17.4	19.5	17.2	13.6	15.8	15.9	14.2	n.a.	15.3	2[a]
Guatemala	12.3	11.6	10.8	10.3	11.0	9.8	10.5	10.5	9.4	n.a.	10.1	1[a]
Honduras	17.0	16.2	21.9	22.1	18.2	18.5	19.9	24.7	18.2	n.a.	20.9	3[c]
Nicaragua	17.2	–16.5	–10.3	–7.3	1.8	6.2	6.1	5.8	n.a.	n.a.	6.0	1[b]
Panama	12.9	19.7	22.0	27.4	25.6	26.8	24.1	20.6	20.2	22.1	21.0	3[d]
Caribbean												
Antigua and Barbuda	16.1	14.0	18.3	20.1	28.3	16.2	17.9	18.1	11.5	n.a.	15.8	2[a]
Bahamas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Barbados	17.7	18.7	17.0	21.1	19.0	16.5	14.5	16.1	14.3	16.0	15.5	2[a]

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Table 2.6 Gross national savings (as percent of GDP)(*continued*)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Belize	18.8	21.1	21.2	20.3	18.3	18.2	20.2	16.9	16.2	n.a.	17.8	2[a]
Dominica	n.a.	16.3	15.7	9.1	15.3	16.9	20.7	23.0	22.1	n.a.	21.9	3[a]
Dominican Republic	15.1	13.2	17.7	21.2	20.2	19.5	18.7	21.3	22.6	20.9	21.6	3[a]
Grenada	26.3	24.3	18.3	28.9	29.7	27.6	24.9	n.a.	n.a.	n.a.	27.4	4[b]
Guyana	−7.4	−0.9	4.7	12.6	17.8	22.3	16.2	15.0	13.4	10.0	12.8	2[a]
Haiti	2.9	1.5	−1.2	1.9	2.4	−2.7	3.2	4.5	3.7	3.6	3.9	0[a]
Jamaica	14.3	21.6	18.6	22.0	17.9	22.4	25.8	26.0	25.1	25.2	25.4	4[b]
St. Kitts and Nevis	25.7	33.8	28.1	21.4	26.5	15.4	23.0	26.5	11.3	10.5	16.1	2[b]
St. Lucia	8.3	12.2	14.1	14.7	13.3	10.9	12.1	12.6	n.a.	n.a.	11.9	1[b]
St. Vincent and the Grenadines	n.a.	n.a.	n.a.	n.a.	n.a.	7.6	8.6	9.6	8.9	7.3	8.6	1[a]
Suriname	n.a.	n.a.	n.a.	n.a.	n.a.	19.4	24.2	7.7	3.2	n.a.	11.7	1[a]
Trinidad and Tobago	16.0	14.9	15.5	17.8	19.7	18.8	17.1	15.8	15.6	20.9	17.4	2[b]
Mexico	18.3	17.1	15.2	14.9	19.1	22.3	24.2	20.6	20.3	n.a.	21.7	3[a]
Chile	24.8	25.1	24.2	25.5	27.6	21.8	22.3	20.8	21.0	n.a.	21.4	3[b]

* Score:

5: over 30 percent
4: 24 to 30 percent
3: 18 to 24 percent
2: 12 to 18 percent
1: 6 to 12 percent
0: under 6 percent

n.a. = not available
Mercosur: Southern Cone Common Market.

Sources:
a. IMF, *Press Information Notes* (PIN), various dates.
b. IMF, *Staff Country Reports*, various dates.
c. IMF, *Decision Point Document for the HIPC Initiative*, June 2000.
d. IMF, Press Release 00/39, 30 June 2000.

Table 2.7 External debt (as percent of exports of goods and services)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Mercosur												
Argentina	426.3	407.1	438.8	440.4	393.9	385.5	403.0	451.8	521.2	472.7	482	0[a]
Brazil	354.4	340.9	334.3	302.6	302.5	342.7	338.0	405.6	432.6	366.0	401	1[a]
Paraguay	82.3	52.9	38.0	33.6	30.0	32.6	32.5	37.4	64.5	75.5	59	5[a]
Uruguay	134.0	128.9	129.6	130.8	126.2	121.7	112.7	125.6	144.4	149.6	140	5[a]
Andean Community												
Bolivia	390.6	489.5	421.1	346.7	365.1	331.5	299.4	343.5	349.2	304.5	332	2[a]
Colombia	190.5	186.9	190.0	204.9	203.2	224.0	225.3	266.2	259.4	228.2	251	3[a]
Ecuador	375.8	344.1	367.2	318.5	265.1	253.8	248.1	327.5	309.3	243.9	294	2[a]
Peru	491.2	476.1	631.5	536.8	498.7	462.3	340.6	392.8	366.3	319.8	360	2[a]
Venezuela	219.7	247.8	253.3	232.9	185.4	135.4	123.9	155.2	138.2	85.4	126	5[a]
Central America												
Costa Rica	182.4	132.5	115.2	100.1	87.2	69.8	60.1	50.8	45.0	52.4	49	5[a]
El Salvador	245.0	240.3	173.6	125.4	106.1	114.3	99.3	96.0	90.9	78.8	89	5[a]
Guatemala	154.8	132.8	114.8	115.6	104.8	109.6	100.9	104.4	114.8	104.1	108	5[a]
Honduras	338.7	344.9	317.9	294.9	244.5	215.2	186.8	177.9	204.5	152.4	178	4[a]
Nicaragua	2,946.6	3,492.6	3,367.1	2,456.9	1,704.6	924.7	751.1	757.5	773.7	718.9	750	0[a]
Panama	68.4	56.1	52.0	49.2	51.7	68.7	60.8	64.1	77.1	73.9	72	5[a]
Caribbean												
Antigua and Barbuda	n.a.	n.a.	n.a.	87.0	105.0	112.0	100.0	90.0	n.a.	n.a.	101	5[b]
Bahamas	26.0	27.0	27.0	24.0	22.0	19.0	19.0	n.a.	n.a.	n.a.	20	5[c]
Barbados	81.5	69.5	60.2	57.4	48.5	43.0	40.1	41.0	41.0	n.a.	41	5[b]

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Table 2.7 External debt (as percent of exports of goods and services) (*continued*)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Belize	70.8	66.2	69.5	70.0	88.4	92.9	141.0	102.5	n.a.	n.a.	112	5[b]
Dominica	103.6	95.8	99.0	97.4	98.5	100.2	81.8	78.7	n.a.	n.a.	87	5[b]
Dominican Republic	248.5	230.9	96.1	75.3	69.8	61.5	50.6	47.3	44.3	41.2	44	5[a]
Grenada	115.0	106.0	110.4	91.8	91.1	103.4	100.4	140.5	n.a.	n.a.	115	5[b]
Guyana	678.6	400.5	366.3	359.0	334.5	228.4	217.6	239.3	n.a.	n.a.	228	3[b]
Haiti	237.2	589.2	531.3	629.5	351.0	277.0	269.7	229.6	222.3	230.8	228	3[a]
Jamaica	213.6	193.7	176.9	174.2	170.1	170.3	185.5	126.2	n.a.	n.a.	161	4[b]
St. Kitts and Nevis	48.5	43.3	44.0	45.8	47.8	50.6	75.9	77.1	n.a.	n.a.	68	5[b]
St. Lucia	26.4	29.6	29.7	32.9	33.5	37.8	40.7	46.4	n.a.	n.a.	42	5[b]
St. Vincent and the Grenadines	57.7	51.9	81.4	125.2	151.3	146.2	183.8	264.4	n.a.	n.a.	198	4[b]
Suriname	55.0	84.0	90.0	81.0	56.0	52.0	n.a.	n.a.	n.a.	n.a.	63	5[c]
Trinidad and Tobago	114.5	105.6	111.1	108.2	94.6	75.3	70.0	83.2	n.a.	n.a.	76	5[b]
Mexico	226.9	210.0	212.6	196.4	185.6	147.1	122.4	124.7	112.7	89.5	109	5[a]
Chile	156.5	153.4	167.9	150.7	113.8	120.5	128.5	167.2	176.1	162.5	169	4[a]

* Score:
- 5: below 150 percent
- 4: 150 to 220 percent
- 3: 220 to 290 percent
- 2: 290 to 360 percent
- 1: 360 to 430 percent
- 0: over 430 percent

n.a. = not available
Mercosur = Southern Cone Common Market.

Sources:
a. ECLAC, *Balance Preliminar de las Economías de América Latina y el Caribe*, 2000, Cuadro A-21.
b. World Bank, World Development Indicators database, 2000.
c. IMF, *Staff Country Reports*, various dates.

Table 2.8 Currency stability: Real effective exchange rate index

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year standard deviation	Score*
Mercosur												
Argentina	116.4	102.1	94.3	93.8	100.0	101.8	98.5	95.6	88.5	89.3	3.9	5[a]
Brazil	108.5	117.2	112.7	112.8	100.0	94.2	93.9	98.8	148.8	137.8	26.3	0[a]
Paraguay	96.8	102.8	106.8	100.7	100.0	95.7	95.1	106.6	104.8	110.0	2.6	5[a]
Uruguay	130.2	127.6	113.8	104.2	100.0	99.1	98.2	100.1	93.4	95.9	3.4	5[a]
Andean Community												
Bolivia	83.8	87.5	92.7	97.6	100.0	93.4	89.5	87.1	86.9	89.5	1.4	5[a]
Colombia	134.9	133.9	125.6	102.2	100.0	92.7	86.9	95.7	108.2	117.7	11.0	3[a]
Ecuador	114.8	114.6	102.6	97.9	100.0	100.4	100.1	103.9	144.0	170.8	33.7	0[a]
Peru	94.8	93.6	105.1	100.0	100.0	98.6	99.0	101.1	110.0	109.1	4.9	5[a]
Venezuela	130.6	124.3	121.2	126.2	100.0	119.0	92.1	81.6	73.1	72.1	5.2	4[a]
Central America												
Costa Rica	108.4	103.2	103.1	103.6	100.0	99.0	102.0	104.9	109.0	109.0	2.4	5[a]
El Salvador	125.4	123.6	112.6	105.6	100.0	92.2	92.7	91.3	92.4	93.0	0.9	5[a]
Guatemala	110.0	109.1	110.2	104.6	100.0	95.2	91.5	92.6	106.0	108.4	8.5	4[a]
Honduras	98.8	93.5	102.8	113.1	100.0	102.3	98.6	92.0	89.2	86.8	2.6	5[a]
Nicaragua	84.5	85.3	82.2	95.1	100.0	101.9	104.4	105.1	106.1	104.1	1.0	5[a]
Panama	102.7	105.1	108.2	112.3	107.7	108.2	109.3	109.4	111.0	n.a.	1.0	5[b]
Caribbean												
Antigua and Barbuda	99.8	93.9	93.7	96.8	95.2	91.9	90.1	n.a.	n.a.	n.a.	2.6	5[c]
Bahamas	96.9	94.4	92.4	96.2	99.6	99.0	96.9	95.1	97.1	n.a.	1.1	5[b]
Barbados	92.6	93.2	95.0	98.3	100.0	99.4	99.5	99.4	98.5	99.4	0.5	5[a]

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Table 2.8 Currency stability: Real effective exchange rate index *(continued)*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year standard deviation	Score*
Belize	101.4	104.0	97.9	101.8	104.1	98.6	95.5	95.8	98.1	n.a.	1.4	5[b]
Dominica	97.1	94.6	98.6	105.0	103.6	96.2	86.7	n.a.	n.a.	n.a.	8.5	4[c]
Dominican Republic	104.5	108.8	106.5	103.0	100.0	93.5	97.5	103.7	108.9	108.8	3.0	5[a]
Grenada	101.7	96.7	97.2	101.7	99.5	96.9	95.7	n.a.	n.a.	n.a.	1.9	5[c]
Guyana	116.7	106.1	97.3	97.6	96.9	89.7	85.1	84.8	94.8	n.a.	5.7	4[b]
Haiti	117.9	129.8	142.1	120.8	100.0	85.9	73.9	69.9	66.3	73.5	3.6	5[a]
Jamaica	92.8	108.4	101.1	103.8	100.0	84.2	72.0	68.7	63.5	64.4	2.8	5[a]
St. Kitts and Nevis	101.8	99.0	99.0	101.2	100.4	92.6	89.9	86.9	91.2	n.a.	2.2	5[c]
St. Lucia	97.2	93.5	94.1	95.1	94.7	92.5	92.2	n.a.	n.a.	n.a.	1.4	5[c]
St. Vincent and the Grenadines	99.4	93.1	96.0	100.9	96.7	93.5	90.3	90.4	n.a.	n.a.	1.8	5[c]
Suriname	84.8	88.1	120.3	110.4	81.2	73.6	67.2	57.3	60.7	52.4	4.2	5[b]
Trinidad and Tobago	75.3	75.6	89.0	96.8	100.0	98.7	99.1	93.3	87.9	85.0	4.2	5[a]
Mexico	74.8	69.1	65.8	67.6	100.0	89.0	79.4	82.1	75.2	69.9	6.1	4[a]
Chile	111.8	108.1	110.0	106.4	100.0	96.4	89.9	93.1	98.0	99.1	3.2	5[a]

* Score:

5: 0 to 5 percent volatility	2: 15 to 20 percent volatility
4: 5 to 10 percent volatility	1: 20 to 25 percent volatility
3: 10 to 15 percent volatility	0: over 25 percent volatility

n.a. = not available

Mercosur = Southern Cone Common Market.

Sources:

a. ECLAC, *Balance Preliminar de las Economías de América Latina y el Caribe,* 2000, Cuadro A-8.

b. Inter-American Development Bank, Social and Economic Indicators Database.

c. IMF, *Staff Country Reports* (1999).

Table 2.9 Market-oriented policies

Country	1994 rating	Developments since 1994	2001 rating
Mercosur			
Argentina	5.0	Argentina has gone farther with the privatization process than any other country in the hemisphere; very few state enterprises remain in public hands. There are virtually no price controls or barriers to foreign investment. In the 1990s, Argentina liberalized much of its services sector, with some exceptions. Argentina has made commitments on basic telecommunications in the WTO and opened long distance to increased competition in 1999. Protection of intellectual property rights—particularly pharmaceutical patents—is relatively weak. Argentina is on the US Special 301 Priority Watch List. The government consumes 15 percent of GDP and employs 14 percent of the labor force. Although it maintains a mostly open trade regime, Argentina has raised some barriers to counter fiscal shortfalls. In March 1995 authorities reinstated the 3 percent “statistical tax” which, following a WTO decision finding it impermissible, was reduced to 0.5 percent in 1998. Argentina has replaced specific duties with safeguard measures on footwear. Some sanitary and phytosanitary measures are considered restrictive. In 2000, the average MFN tariff was 13.5 percent. In 1999 Argentina increased tariffs on a number of items, including notably toys, and in the wake of the devaluation of the Brazilian real, took measures, largely administrative, to slow the entry of Brazilian goods.	4.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
Brazil	3.0	The privatization of public enterprises—most notably mining giant Companhia Vale do Rio Doce (CVRD), telecommunications enterprise Telebras, and gas company Comgas—accelerated in 1997-99, following years of slow progress. In 1999 the government opened the market for cellular telephony to private investors. The government still plays a large role in certain significant sectors, notably petroleum and electricity. The government has passed constitutional amendments eliminating the distinction between foreign and domestic firms and reducing or eliminating restrictions on foreign investment in several key sectors (mining, electricity, telecommunications, and natural gas); barriers to investment, particularly in government procurement and services, remain in place. In April 1996 lawmakers approved a new patent and trademark law, which goes beyond the scope of the WTO's TRIPS Agreement. Price controls affect some foodstuffs as well as manufactures produced by state enterprises. The government consumes 15.2 percent of GDP. In 1995 Brazil raised tariffs on some goods and temporarily imposed an auto quota (contested by several countries in the WTO), citing a foreign exchange reserve crisis; the quota was removed shortly thereafter. In April 1997 Brazil imposed a temporary 3 percent tariff increase on nearly all goods, except capital goods not available domestically. A large devaluation in January 1999 increased Brazil's exports. Brazil's telecommunications sector has been significantly liberalized. A 1996 law opened cellular telephony to foreign ownership. However, Brazil has not yet signed the WTO Basic Telecommunications Agreement. The average MFN applied tariff rate was 14.3 percent in 1999.	4.0

Paraguay	3.0	As a result of resistance in the legislature, the privatization program has come to a halt. The foreign investment regime is fairly open and foreign companies receive national treatment but corruption tends to hinder investment. Law 194 requires foreign companies to prove "just cause" in terminating or modifying contracts with domestic distributors. Restrictions remain in the telecommunications sector. Intellectual property laws are poorly enforced, resulting in widespread commercial piracy. Paraguay was subject to US Section 301 investigations in 1998. A new trademark law was signed in August 1998. Price controls affect utilities, petroleum, and pharmaceuticals. The government consumes 7.8 percent of GDP and employs about 12 percent of the labor force. The average MFN applied tariff rate was 11.4 percent in 1999.	3.0
Uruguay	3.0	The economic program since 1994 has focused on trade liberalization. Authorities have privatized the state airline and telecom enterprises and ended the state monopoly in insurance. The foreign investment regime is open but bureaucracy tends to be cumbersome. Foreign investors receive national treatment. The government controls the prices of some food, fuel, and alcohol. The public sector consumes 12.8 percent of GDP and employs about 16 percent of the labor force. The average MFN applied tariff rate was 12.2 percent in 1999.	4.5
Andean Community			
Bolivia	4.0	In 1994 the legal framework for the privatization program was established under the Capitalization Law. Since then, the largest state-owned enterprises (including oil, electricity, telecommunications, pensions, airline, railroad, and smelter) have been privatized. Foreign investment has been mostly liberalized, and price controls have been virtually eliminated.	4.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
		In 1996 and 1997, the government passed hydrocarbons and mining laws, improving transparency, openness, and tax provisions for foreign investors in two of the economy's three largest sectors. Government consumption equals about 13 percent of GDP, and the public sector employs about 11 percent of the total workforce. The average MFN applied tariff rate was 9.7 percent in 1996; Bolivia has one of the most uniform tariff schedules in Latin America and virtually no nontariff barriers.	
Colombia	4.0	The 1994 Public Services Law allows for the dismantling of public monopolies. In 1997 several electricity and gas companies were privatized, and the telecommunications sector was deregulated. A new investment law permits 100 percent foreign ownership in nearly all sectors. As a result of the drug trade and poor protection of intellectual property rights, Colombia has a significant black market. Colombia is on the US Special 301 Watch List. Prices are set by the market, with few exceptions. Since 1995, Colombia has employed a variable import duty system for agricultural products. Colombian government procurement regulations provide national treatment to foreign companies on a reciprocal basis. Since 1991, full foreign ownership is permitted in financial services. Colombia has undertaken GATS commitments in telecommunications, finance, tourism, law accounting, and other services sectors. Some industries, such as data processing, television broadcasting, and professional services, place limits on foreign equity participation. Colombia made commitments in the WTO on most basic telecommunications services. Callback services were specifically prohibited. The government consumes 13.8 percent of GDP and employs about 9 percent of the labor force. The average MFN applied tariff rate was 11.6 percent in 1999.	4.0

Ecuador	3.0	Privatization of the electricity and telecom sectors, put forward in 1994, has proceeded slowly, largely as a result of political opposition. Foreigners may invest in nearly any nonstrategic sector of the economy but increased corruption has harmed the investment climate. Expropriation of private property remains a problem. Increased violence at the border with Colombia, including bombings of pipelines, has created uncertainty for investors in the petroleum sector. Price controls affect electricity and natural gas, among other products. A new pricing mechanism in the petroleum sector facilitates wholesale price adjustments. The government consumes 9.1 percent of GDP and employs nearly one-quarter of the workforce. Ecuador joined the WTO in 1996. Nontariff barriers in various sectors, including agriculture and telecommunications continue to exist. Ecuador has applied the Andean Community's 4-level Common External Tariff since 1995. The average MFN applied tariff rate was 11.4 percent in 1999. Authorities have made limited progress in reducing the corruption and improving the efficiency of customs procedures. In 1999, the government applied temporary surcharges on imports to address its precarious fiscal situation. Volatility in Ecuador's political situation since 1998 has created a climate of instability and uncertainty about Ecuador's policy direction.	2.5
Peru	2.0	The privatization process has progressed with the sale of major enterprises in mining, energy, manufacturing, telecommunications and oil. There are few barriers to foreign investment, although the unpredictable judicial system acts as a deterrent. Nearly all price controls have been eliminated.	3.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
		The government consumes 8.3 percent of GDP and employs less than 10 percent of the workforce. There is no limitation on foreign participation in government procurement. Peru has made commitments in the WTO on basic telecommunications, with full market access and national treatment awarded as of 1998. Peru has made market access commitments in financial services under the 1997 WTO Financial Services Agreement. In 1996 the government banned imports of used cars to limit the growing trade deficit. The average MFN applied tariff rate was 13.7 percent in 1999; there are few nontariff barriers. A 5 percent temporary tariff was applied to agricultural goods and a variable levy was set on rice, corn, sugar, and milk products.	
Venezuela	4.0	The oil sector has been partially opened. The national airline, telephone company, steel mill, and several large banks have been sold. The state continues to control much of the petroleum, oil, gas, and mining sectors. Price, exchange, and interest rate controls were imposed to deal with the 1994 financial crisis; these were removed in 1996, except for price controls on fuel and some food and medicine. Some changes in trade and investment policy since the election of President Hugo Chávez have increased investor uncertainty. The new 1999 Constitution introduces changes to the tax code and leaves open possibility for arbitrary decisions. Border controls have been implemented with Colombia. A 1999 government procurement law forbids discrimination against foreign bidders, however, the President can mandate temporary changes in the bidding process under "exceptional circumstances" or in accordance with "economic development plans." Restrictions remain in a number of service sectors such as professional services and broadcasting. The government consumes 10.2 percent of GDP; public sector employs about 19 percent of the workforce. The average MFN applied tariff rate was 12 percent in 1999.	

Central America			
Costa Rica	3.0	The government's privatization program has accomplished relatively little. State monopolies exist in the insurance, telecommunications, energy, and railroad sectors. There are virtually no impediments to foreign investment except in the few sectors reserved for the state. The government has worked to recruit direct investment by foreign technology companies (e.g., Intel). There is little evidence of corruption or bribery. In 1999 Costa Rica signed the WTO financial services agreement and its commitments have entered into force. Financial service providers are allowed to establish 100 percent owned subsidiaries and provide a wide range of services. Costa Rican law affords national treatment for foreign investors with no restrictions on repatriation. Most price controls have been eliminated. A 1995 general customs law aims at streamlining most customs procedures. The government consumes 16.8 percent of GDP and employs 17.5 percent of the labor force. In early 1995 tariffs on finished products and capital goods were raised from 20 percent to 28 percent and from 5 percent to 13 percent, respectively, in response to a fiscal shortfall; the measures were later repealed. The average MFN applied tariff rate was 7.2 percent in 1999.	
El Salvador	2.0	The government sold four electricity companies in January 1998, implemented a private pensions system in April 1998, and partially privatized several telecommunications companies in July 1998. The 1998 Foreign Investment and Promotion Law opened virtually every sector of the economy to foreign investment and provides protection of intellectual property rights. Regulation is minimal but corruption continues to pose a problem. As of 1999, foreign banks receive national treatment for a	4.5

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Table 2.9 **Market-oriented policies** *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
		full range of financial services. Commitments in the 1997 WTO Financial Services Agreement have been brought into effect with El Salvador's notification of its acceptance of the fifth GATS protocol. Price controls have been eliminated on nearly all goods except transportation and utilities. Intellectual property protection has been in force since 1993, with a special monitoring unit created in 1996. El Salvador was removed from the US Special 301 Watch List in 1996. El Salvador completed its Central American Common Market tariff reductions in 1999. The 1999 average MFN applied tariff was 5.6 percent.	
Guatemala	1.0	Government consumption equals 7.7 percent of GDP, down from 14 percent in 1980. All tariffs were brought into a 5 to 20 percent range in January 1995; in December 1996 tariffs on raw materials and capital goods were cut to zero. Guatemala is currently undertaking one of the most ambitious economic reform programs in the region. The government has sold electricity plants and railroad and radio concessions, and privatized the state telephone company in 1998. Foreign investors receive national treatment but bureaucratic hurdles and the arbitrary application of regulations tend to discourage investment. The 1998 Investment Law includes provisions for national treatment of foreign investors. Some restrictions on foreign investment remain, including in auditing, insurance, mineral exploration, forestry, and media. "Price bands" affect some agricultural goods. The government consumes 5.9 percent of GDP. Guatemala went beyond WTO tariff rate quota commitments on poultry and has committed to apply the WTO Customs Valuation Code as of July 2000, eliminating the use of reference prices for agriculture. The average MFN applied tariff rate was 7.6 percent in 1999; there are relatively few nontariff barriers aside from burdensome customs procedures.	3.0

Honduras	2.0	Several state-owned sectors, including energy and transportation, have been deregulated and/or privatized. Foreign investment is restricted in several sectors by means of special state authorization and domestic majority ownership requirements; cronyism and a lack of transparency continue to plague the investment climate. The government maintains price control. Authorities have taken steps to reduce widespread piracy of intellectual property. Government consumption is 10.5 percent of GDP. The 1997 tariff law reduced tariffs to 1 percent on capital goods, medicines, and agricultural inputs, and on raw materials and inputs produced outside the region. Tariffs on final goods were reduced to 17 percent in 1999. The average MFN applied tariff rate was 7.8 percent in 1999; labeling and sanitary requirements pose nontariff barriers. Price bands and seasonal restrictions exist on agricultural goods.	3.0
Nicaragua	1.0	The privatization of state-owned enterprises has proceeded slowly. After a setback with the privatization of the telephone company, during which the government increased control of the company to address a deterioration in its financial position, the privatization process has slowly been reactivated in late 1999. The foreign investment code has been liberalized to allow 100 percent foreign ownership of assets but corruption, arbitrary application of regulations, and a lack of infrastructure continue to pose major impediments to foreign investment. Almost all price controls have been eliminated but the government continues to purchase “emergency stores” of basic foods, affecting market prices. The government consumes 13 percent of GDP. The average MFN applied tariff rate was 10.9 percent in 1998; nontariff barriers are significant. As a result of a maritime boundary dispute, Nicaragua imposed an extraordinary 35 percent tariff on products from Honduras and Colombia.	2.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
Panama	2.0	The telecommunications company and several ports have been privatized. Lawmakers passed legislation in 1997 and early 1998 permitting the sale of the water and electric utilities. Most sectors are open to foreign investment. The Universalization and Anti-Trust Laws of 1995 and 1996 have improved the investment climate by offering fiscal incentives and promoting competition, respectively. Corruption continues to plague the investment climate. The government continues to control the prices of a few basic foodstuffs, medicines, rent, and transportation. The government consumes 15.7 percent of GDP. There are few barriers to foreign investment with the exception of the prohibition of foreign ownership of land. Panama's accession to the WTO in October 1997 prompted authorities to slash tariffs to a range of 0 to 15 percent (with exceptions for rice, milk, and autos) and reduce import licensing and phytosanitary barriers. Some temporary increases have been made in agricultural products. The 1999 applied MFN rate is 8.5 percent.	4.0
Caribbean			
Antigua and Barbuda	2.5	The government has made little progress toward the privatization of its numerous hotels, properties, and other enterprises. Tariffs range from 0 to 35 percent but many imports are granted discretionary exemptions; import licenses are required for some goods.	2.5
Bahamas	3.0	The government has accelerated the divestiture of hotels and has partially privatized a state-owned bank. A new foreign investment law increases foreigners' access in sectors that do not directly compete with domestic industry. Authorities follow a hands-off regulatory approach. Foreign institutions are encouraged to participate in the banking sector. Price controls have been removed, with the exception of those on items such as flour, gasoline, autos, and utilities. Government consumption equals 12.8 percent of GDP. Tariffs range from 0 to 42 percent; there are virtually no nontariff barriers.	3.5

Barbados	3.0	Aside from government-approval requirements in some sectors, the foreign investment regime is open, permitting 100 percent foreign ownership and granting equal treatment to foreign and domestic investors. Prices are largely market-determined, with only a few exceptions. The government consumes 21.5 percent of GDP and employs 40 percent of the workforce. In January 1997, authorities replaced the stamp tax with a value-added tax, making the tax system simpler and more efficient. Tariffs range from 5 to 25 percent; surcharges, quotas, and licensing requirements continue to affect some imports.	4.0
Belize	3.0	Foreigners may invest in most major sectors of the economy and are permitted 100 percent ownership but red tape tends to impede investment. Price controls affect some basic foodstuffs, but otherwise prices are market-determined. The government consumes 16 percent of GDP. Authorities have replaced export duties and the stamp duty on imports with a value-added tax. Belize has implemented Phase 11 of the CARICOM CET, reducing the tariff ceiling to 25 percent; however, many imports are banned.	3.5
Dominica	2.5	Privatization has proceeded slowly. The government maintains price controls on food, petroleum, and construction- related goods. Tariffs range from 0 to 30 percent; quotas, customs surcharges, and licensing requirements affect some imports.	2.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
Dominican Republic	2.0	A 1997 law allows for the partial (50 percent) privatization of 30 state-owned enterprises, including sugar mills, electricity and petroleum companies, and ports. Government procurement is often closed to foreigners. The 1995 Foreign Investment Law opened investment to foreigners in all sectors of the economy except toxic waste disposal, public health, environment, and defense. In February 1998, the government repealed a 50-year-old law, which imposed restrictions on foreign investment in real estate. Enforcement of laws continues to be impeded by red tape and irregularities. Prices are set by the market, with exceptions for sugar, beans, and propane gas. Government consumption equals 5 percent of GDP. Tariffs range from 3 to 35 percent. A consumption tax is imposed on “nonessential” imports such as home appliances, alcohol, jewelry, perfumes, automobiles, and auto parts. Several imports are banned and customs clearance procedures tend to be burdensome.	3.5
Grenada	3.0	Government consumption equals 19.2 percent of GDP. Tariffs range from 5 to 25 percent; import and licensing requirements affect some goods and there is a 5 percent tax on foreign exchange transactions.	3.0
Guyana	2.0	A privatization program was established as part of an IMF agreement; the National Bank of Industry and Commerce and the Guyana Electricity Corporation were partially privatized in 1997-98, but other sales have been delayed due to political resistance, legal disputes and investor concerns about political unrest. Few restrictions apply to foreign investors but corruption, civil unrest, crime, and bureaucratic red tape tend to deter investment. The government continues to dominate the economy, particularly the bauxite, sugar, and electricity sectors; government consumption equals 12.8 percent of GDP. Tariffs range from 5 to 25 percent; surcharges, bans, and licensing requirements affect many imports.	2.0

Haiti	0.5	Aside from the October 1997 sale of 70 percent of the state-owned flour mill, political opposition has prevented the government from carrying out its ambitious privatization program. Although Haiti provides national treatment to foreign investors, the investment climate is plagued by political instability, crime, corruption, and poor infrastructure. The government maintains price controls on a number of goods and services. The economy is among the world's most heavily regulated, which has contributed to the formation of a large and growing black market. The government consumes 20 percent of GDP and continues to play a large role in the economy. Tariffs have been reduced to a range of 5 to 15 percent. Import and export licenses, bans, and quotas affect many imports; corruption and poor infrastructure act as further impediments.	1.0
Jamaica	3.0	The national airline, oil refinery, and radio and TV stations, as well as a number of financial institutions, have been privatized, but the sale of the power company was canceled as a result of popular opposition. Foreign investors are permitted majority ownership in virtually every sector of the economy. The financial sector has been mostly liberalized, although the government has taken over several banks since the financial crisis began in early 1996. The government maintains numerous price controls. Government consumption equals 12.5 percent of GDP. Some tariffs were repealed in 1996 but duties on agricultural products and motor vehicles remain high. Authorities have made progress in streamlining customs procedures. Tariffs range from 0 to 50 percent; a stamp tax, import and export licenses, and import bans affect some imports.	3.5

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Table 2.9 Market-oriented policies *(continued)*

Country	1994 rating	Developments since 1994	2001 rating
St. Kitts and Nevis	3.0	Government consumption equals 17.4 percent of GDP. The government eliminated the foreign exchange tax and the stamp tax on imports in 1994. Tariffs range from 0 to 30 percent.	3.5
St. Lucia	3.0	The government has taken steps to foster an attractive investment climate; it offers incentives to foreign investors and has worked to improve the country's infrastructure. Tariffs range from 0 to 30 percent; licensing requirements affect some imports.	3.5
St. Vincent and the Grenadines	3.0	Authorities maintain price controls on some goods. Government consumption equals 25.8 percent of GDP. Tariffs range from 0 to 25 percent; some imports face surcharges and licensing requirements.	3.0
Suriname	1.0	Foreign investors are handled on an ad hoc, often discriminatory, basis. Bureaucracy and corruption continue to impede investment. Wage and price controls are still prevalent. Capital outflows face some restrictions. The government consumes about 12 percent of GDP and employs approximately half of the labor force. Tariffs range from 5 to 30 percent; a complicated licensing system and import bans affect many imports.	1.5
Trinidad and Tobago	3.0	The national airline, flour mills, water company, and sewage system have been privatized. There are virtually no barriers to foreign investment; regulations are applied evenly but tend to be burdensome. Prices are market-determined, with a few exceptions for goods such as sugar and pharmaceuticals. Government consumption equals 16 percent of GDP. Tariffs range from 5 to 25 percent; stamp duties were removed in 1995 but surcharges and licensing requirements continue to affect some imports.	4
Mexico	5.0	Although the privatization process slowed during the economic crisis, authorities have since privatized several rail lines and satellites, and partially liberalized the financial services sector. After the peso crisis, the government raised some trade barriers against non-NAFTA countries and bailed out-and effectively gained control of-several banks, which remain to be reprivatized. Mexico has taken on comprehensive disciplines under NAFTA, which it has applied in all its	4.5

		subsequent free trade agreements. In 2000, Mexico implemented the seventh annual regular tariff reductions under NAFTA. Reductions will be completed in 2008. Mexico ended its monopoly on long-distance communication services in 1996 and allows up to 49 percent foreign ownership in networks and services, with 100 percent allowed in cellular services. Mexico maintains state monopolies in oil and gas exploration and development. Price controls affect some foodstuffs. The government consumes 10.9 percent of GDP. In 1999 Mexico increased MFN tariffs by 3 percent for capital and intermediate goods and 10 percent for finished goods. The average MFN applied tariff rate was 16.2 percent in 1999.	
Chile	5.0	Nearly all of Chile's state-owned enterprises, including the pension system, have been privatized. The investment regime is open and nondiscriminatory, with very few exceptions. Most regulations are moderate. However, short-term capital controls remain in place. Virtually all price controls have been lifted but Chile maintains a price band system for agricultural products. The government consumes 8.1 percent of GDP and employs about 8 percent of the labor force. Chile has negotiated a number of free trade agreements with trading partners, including Mexico, Canada, and various Latin American countries, and has begun FTA negotiations with the United States. Chile made WTO commitments in most basic telecom services and participated in the WTO financial services negotiations. On 1 January 2000, Chile reduced its uniform MFN tariff of 10 percent to 9 percent. This will be reduced by a percent per year until it reaches 6 percent in 2003 (imports of used goods, including automobiles, remain taxed at 16.5 percent).	5.0

Mercosur = Southern Cone Common Market.

Sources: Privatization, deregulation, and liberalization: *Financial Times; Journal of Commerce; Dow Jones Newswires.* Investment climate: US Department of Commerce, *Country Commercial Guides;* IMF country reports. Government consumption, intellectual property rights, investment climate, price controls: Johnson et al. 1998. Average MFN applied tariff rates: Inter-American Development Bank (rates represent the arithmetic mean of tariff rates in all harmonized system categories). Caribbean tariff schedules and nontariff barriers: Finger et al. 1998.

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Table 2.10 Reliance on trade taxes (as percent of current tax revenue)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3-year average	Score*
Mercosur												
Argentina	7.9	7.8	7.6	7.3	5.2	6.6	7.6	6.6	n.a.		6.9	4[a]
Brazil	3.1	2.5	2.5	2.6	6.0	4.6	3.5	3.9	4.0		3.8	5[b]
Paraguay	24.4	19.1	13.0	13.9	17.8	14.9	14.6	13.9	10.3		12.9	3[b]
Uruguay	8.2	7.1	5.0	4.1	3.5	3.5	3.6	3.7	3.6		3.6	5[a]
Andean Community												
Bolivia	6.0	7.0	6.2	6.7	6.7	5.9	6.7	6.8	6.0		6.5	4[a]
Colombia	13.0	8.8	8.4	9.4	9.2	7.6	8.1	9.9	7.3		8.5	4[a]
Ecuador	14.3	11.6	10.7	12.8	15.1	13.6	15.5	n.a.	n.a.		14.7	3[a]
Peru	9.7	9.5	11.6	10.3	10.3	9.4	8.8	9.7	9.7		9.4	4[a]
Venezuela	8.0	11.3	11.0	9.0	9.2	6.9	6.8	11.0	9.7		9.2	4[a]
Central America												
Costa Rica	19.7	16.6	15.0	14.5	15.0	8.4	9.2	8.5	5.7		7.8	4[a]
El Salvador	20.6	17.0	15.3	14.9	17.0	13.8	11.7	10.6	11.0		11.1	3[a]
Guatemala	15.6	21.1	19.8	21.2	23.3	17.6	15.1	13.4	12.4		13.6	3[a]
Honduras	36.8	31.8	30.0	28.3	23.7	22.8	20.8	16.1	n.a.		19.9	2[b]
Nicaragua	17.9	17.9	22.9	19.5	21.0	20.5	21.8	25.7	n.a.		22.7	1[b]
Panama	16.3	15.9	13.9	19.4	19.0	19.7	21.0	22.8	19.2		21.0	1[b]
Caribbean												
Antigua and Barbuda	42.2	41.7	42.3	37.0	36.6	36.7	38.9	38.1	n.a.		37.9	0[b]
Bahamas	62.2	58.2	59.7	60.3	57.3	57.4	58.6	57.3	56.7		57.5	0[a]
Barbados	18.8	17.1	16.6	17.9	16.0	13.2	9.7	8.9	8.4		9.0	4[b]

Belize	61.3	56.9	56.4	48.9	50.9	27.7	31.7	30.6	31.8	29.2	30.5	0[b]
Dominica	52.6	55.2	55.7	48.6	47.1	42.8	44.5	44.6	n.a.		44.0	0[b]
Dominican Republic	47.5	49.6	47.9	42.1	40.3	36.8	36.1	37.2	n.a.		36.7	0[a]
Grenada	27.0	24.9	22.1	20.6	20.0	18.2	23.2	24.8	24.3	22.6	23.9	1[b]
Guyana	16.4	12.4	14.9	14.5	14.0	13.5	12.9	13.6	n.a.		13.3	3[b]
Haiti	22.0	16.6	16.8	13.2	18.9	15.7	21.8	20.5	n.a.		19.3	2[b]
Jamaica	23.3	24.6	28.5	22.3	26.4	25.4	26.4	27.2	30.4		28.0	0[b]
St. Kitts and Nevis	52.4	50.2	46.4	47.6	42.2	38.9	39.9	36.3	37.1		37.8	0[b]
St. Lucia	28.7	29.6	26.5	26.1	26.1	26.7	26.3	25.5	n.a.		26.2	0[b]
St. Vincent and the Grenadines	40.5	39.6	41.0	40.1	42.2	39.5	41.2	41.1	40.7		41.0	0[a]
Suriname	27.9	29.7	23.5	35.3	30.1	34.9	n.a.	n.a.	n.a.		33.4	0[a]
Trinidad and Tobago	15.1	13.6	10.7	9.0	5.8	5.2	6.7	8.1	7.7	6.3	7.4	4[b]
Mexico	8.4	9.1	7.5	6.9	4.8	3.9	3.9	4.3	n.a.		4.0	5[a]
Chile	10.3	9.6	9.9	8.9	9.3	9.3	8.4	7.9	6.9		7.7	4[a]

* Score:

5: less than 5 percent	2: 15 to 20 percent
4: 5 to 10 percent	1: 20 to 25 percent
3: 10 to 15 percent	0: over 25 percent

n.a. = not available
Mercosur: Southern Cone Common Market.

Sources:
a. IMF, *Government Finance Statistics (GFS) Annual*, 1994-2000.
b. IMF, *Staff Country Reports*, various dates.

Table 2.11 Policy sustainability

	Human Development Index (HDI)	HDI score[a]	Political rights (PR)	PR score[b]	Civil liberties (CL)	CL score[b]	Freedom House (FH) score	Total score
Mercosur								
Argentina	0.837	4.0	2	4.0	3	3.5	3.8	3.88
Brazil	0.747	3.0	3	3.5	4	3.0	3.3	3.13
Paraguay	0.736	3.0	4	3.0	3	3.5	3.3	3.13
Uruguay	0.825	4.0	1	5.0	2	4.0	4.5	4.25
Andean Community								
Bolivia	0.643	2.0	1	5.0	3	3.5	4.3	3.13
Colombia	0.764	3.5	4	3.0	4	3.0	3.0	3.25
Ecuador	0.722	3.0	2	4.0	3	3.5	3.8	3.38
Peru	0.737	3.0	5	2.0	4	3.0	2.5	2.75
Venezuela	0.770	3.5	4	3.0	4	3.0	3.0	3.25
Central America								
Costa Rica	0.797	3.5	1	5.0	2	4.0	4.5	4.00
El Salvador	0.696	2.5	2	4.0	3	3.5	3.8	3.13
Guatemala	0.619	2.0	3	3.5	4	3.0	3.3	2.63
Honduras	0.653	2.5	3	3.5	3	3.5	3.5	3.00
Nicaragua	0.631	2.0	3	3.5	3	3.5	3.5	2.75
Panama	0.776	3.5	1	5.0	2	4.0	4.5	4.00
Caribbean								
Antigua and Barbuda	0.833	4.0	4	3.0	3	3.5	3.3	3.63
Bahamas	0.844	4.0	1	5.0	1	5.0	5.0	4.50
Barbados	0.858	4.5	1	5.0	1	5.0	5.0	4.75
Belize	0.777	3.5	1	5.0	1	5.0	5.0	4.25
Dominica	0.793	3.5	1	5.0	1	5.0	5.0	4.25
Dominican Republic	0.729	3.0	2	4.0	3	3.5	3.8	3.38
Grenada	0.785	3.5	1	5.0	2	4.0	4.5	4.00

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Guyana	0.709	3.0	2	4.0	2	4.0	4.0	3.50
Haiti	0.440	0.0	5	2.0	5	2.0	2.0	1.00
Jamaica	0.735	3.0	2	4.0	2	4.0	4.0	3.50
St. Kitts and Nevis	0.798	3.5	1	5.0	2	4.0	4.5	4.00
St. Lucia	0.728	3.0	1	5.0	2	4.0	4.5	3.75
St. Vincent and the Grenadines	0.738	3.0	2	4.0	1	5.0	4.5	3.75
Suriname	0.766	3.5	3	3.5	3	3.5	3.5	3.50
Trinidad and Tobago	0.793	3.5	1	5.0	2	4.0	4.5	4.00
Mexico	0.784	3.5	3	3.5	4	3.0	3.3	3.38
Chile	0.826	4.0	2	4.0	2	4.0	4.0	4.00

Mercosur = Southern Cone Common Market.

a. **HDI score:**

5.0: over .90	2.5: .65 to .70
4.5: .85 to .90	2.0: .60 to .65
4: .8 to .85	1.5: .55 to .6
3.5: .75 to .80	1.0: .50 to .55
3.0: .7 to .75	0: under .50.

b. **PR and CL scores:**

5: 1	2: 5
4: 2	1: 6
3.5: 3	0: 7
3: 4	

Methodology:
FH score = (PR score + CL score)/2
Total score = (HDI score + FH score)/2.

Sources: United Nations Development Program (2000); Freedom House Country Ratings, http://www.freedomhouse.org.

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