



The Airport Economist takes flight at LADU

Tim Harcourt's new book – *Latin Lessons: Latin America and Australia Face the Asia Pacific Century* – is the companion piece to *Great Southern Lands: Building Ties Between Australia and Brazil*, also produced by the Council on Australia Latin America Relations (COALAR) in the Australian Department of Foreign Affairs and Trade (DFAT). He launched the book at Latin America Down Under and an extract features here.

Australia and Latin America have been separated by geography, culture and economic ties. Historically, because of their respective colonial ties, Latin America looked to Europe and Australia looked to England, and we've been in different hemispheric "spheres of influence" ever since.

But things are changing in the 21st Century. As Asia and the emerging markets are on the march, Australia and Latin America find they have more in common in the Asia Pacific century than they have had in the past.

Both continents are resources rich. Both continents have strong agricultural sectors. Both rely on immigration in part for their human capital. Both combine a rich indigenous culture with former colonial institutions. Both survived the global financial crisis and the subprime crisis largely intact.

While in the 20th Century Latin America and Australia were considered to be distant competitors as commodity exporters, in the 21st Century they are now working together through intra-industry investment and technological and management exchange to feed Asia (particularly China) and supply the region with industrial raw materials and professional services. Also we are both looking to collaborate in international economic institutions (like the WTO, APEC and G20).

Latin America and Australia also have strong potential to work together because we share common values like openness, democracy, human rights and the rule of law. In fact, it was our democratic Parliamentarians who drove the bilateral relationship and recommended establishing institutions like COALAR to provide policy advice and enhance business engagement. The Parliamentarians also encouraged Australia and Latin America officials to work together and become great allies in multilateral institutions that govern the international economy such as the WTO, APEC and the G20.

Businesses are now looking to form similar relationships and institutions and naturally, our research and academic institutions are looking to complement this with wider and deeper education partnerships and people relationships between Australia and Latin America.

In fact, it is the emphasis put on economic and political institutions that leads Latin Amer-

ica to look to Australia in the first place. Many of my Latin American hosts and guests say that Australia is the place that Latin America could be "if it turns out right."

While younger generations know democracy and relative economic prosperity, those leaders in business, government and community, who have experience of darker times, know how economic institutions are contributing to political stability, economic prosperity and social cohesion. And it is Australia's economic institutions, not the sunny beaches and love of sport (that Latin America has already), that explain why many leaders in political, business and community in Latin America aspire to be like Australia.

A century ago both Argentina and Australia (and Buenos Aires and Melbourne in particular) were two of the richest nations in the world. But while Australia developed inclusive institutions and resisted the squatocracy, Argentina allowed land-owning oligarchs to flourish, with extractive and exclusive institutions, which forced the mass of the population to support Peronist policies.

Even in recent years, at the beginning of the 21st Century, we can see how economic institutions and their capacity to allow economic reform when external shocks affect an export-orientated country like Argentina and Australia matter.

In fact Australia's recent economic success is due to the reform of its economic institutions. For example, in opening up to Asia, the Hawke-Keating Government of the 1980s brought fundamental reforms such as the floating of the dollar, reduction of tariff barriers, the introduction of superannuation and domestic reform. This enabled Australia to prosper in the Asian Century, turning our historical "tyranny of distance" position into "the power of proximity".

The contrast with Argentina, a similarly resource-endowed southern hemisphere economy, couldn't be greater. While Australia floated the dollar, enabling the economy to have a shock absorber while we reformed our economic structures, Argentina fixed the peso to the US dollar, making exports too expensive and imports cheap, which coupled with debt and default, destroyed confidence in Argentina's institutions and security in their property rights and banking system.



Now Argentina knows it needs to rebuild trust and confidence in its institutions, so it can take full advantage of its natural resources and highly educated sophisticated workforce.

Our report features chapters written by distinguished economists from Mexico, Peru, Chile, Argentina, Uruguay and Colombia and tells the story of the potential for forging trade links in the Asia Pacific and with Australia in particular.

In the Mexican chapter, Jose Antonio Ardevin, director of the OECD in Mexico City, explains the chequered 19th Century economic history of Mexico complicated by relationship with the USA (which had taken California, Texas, Arizona and New Mexico). He takes us through the recent experience of re-establishing democracy in Mexico in the 2000s, and the impact of NAFTA, the so-called "tequila crisis of 1994" and the 2008 GFC that hit Mexico particularly hard. He believes that Mexico has now put that period behind it and in a new spirit of openness, democracy and moderate economic growth, and macroeconomic stability, the world may experience "The Mexican Moment".

To fulfil its potential, Mexico must, he believes, undertake serious economic reform in education, human capital, pension reform, energy reform and competition – a process that has since begun under President Pena Nieto's Pact for Mexico reforms.

For Australia, along with the bilateral ties in resources, most collaboration comes in education and human capital (strong ties in higher-education institutions and technical skills), and Mexico has been studying Australia's Productivity Commission and other economic institutions. Mexico is a member of the G20 and together with Australia recently joined fellow middle power G20 countries Indonesia, Turkey and South Korea in the MITKA alliance.

Mexico's size and scale has impressed the Australian Ambassador to Mexico, Tim George, who says: "What has really struck me is Mexico's significance globally as a



major exporter of increasingly sophisticated manufactured goods, its depth of integration into North American supply chains, and its enormous economic potential more broadly.

"Its sound macro-economic credentials, the outward orientation of its economy, its impressive and far-reaching reform agenda, and its demographics all mean Mexico is on a very good trajectory. It will be a top 10 economy before long, and could go significantly higher."

From Colombia, world-renowned academic Mario Garcia-Molina explains the improving economic performance of Colombia that has been overshadowed by its drug cartel and security issues of past decades.

Colombia is an enthusiastic member of the Pacific Alliance and APEC and attempting to escape its past and being overly tied to an Andean trade bloc alone. Australian businesses in mining and education have long considered Colombia the Latin American economy with the most potential – given its outstanding reserves of human capital with its cohort of highly educated, sophisticated, services orientated, young people – and the nation has made great strides to improve its national brand status and trade ties in the Asia Pacific.

Peru is a classic example of the great improver in the Latin American economic stakes. Pablo de la Flor describes Peru as "The Andean Jaguar" and highlights its strong growth rates (6.4% pa on average over the decade), low inflation (averaging 2.5%) and improving per capita income stakes so it reached middle-income status like a hiker climbing Machu Picchu.

Peru's success is a trading story not just within the Andean states and Latin America but also beyond the continent into Asia (China takes 17% of Peru's exports and trade with Beijing is now more important to Lima than trade with Washington DC).

Australia's contribution to Peru's success has mainly been in mining but also in agriculture, education and tourism.

Chris Gale, managing director of Latin Resources Ltd, has highlighted Peru's "tremendous upside as a mining country with excellent geology, very user-friendly in terms of exploration and the Peruvian Government has been more than helpful in terms of greenfields and resource definition".

Peru has also pushed APEC and the Pacific Alliance (being a member along with Chile, Colombia and Mexico). Peru's main fear is running out of steam after spectacular growth and falling into the "middle-income trap", hence its search for new markets in Asia and the Pacific to maintain rising living standards.

Chile has of course been the poster child for Latin American economic performance for many years.

As Nicolas Munoz of the Foreign Investment Committee of Chile points out, free trade and an open economy have been cornerstones of Chile's economic strategy and in many respects Chile had been the model for



Tim Harcourt signs a copy of his book – Latin Lessons – for Australian Foreign Affairs Minister Julie Bishop

other aspiring nations in the region.

As Munoz points out, Chile is an attractive destination for foreign investors, with many Australian companies like BHP Billiton Ltd and WorleyParsons basing their Latin American operations in Santiago.

The question, however, is what next for Chile? It is already ahead of the game, concentrating on innovation and investment as well as trade, and making itself a launch pad for innovation into third markets. This is displayed in the work of CSIRO Chile in providing mining and minerals processing technology and training in Santiago and the northern Chilean mining town of Antofagasta.

On Argentina, high-profile Argentine economist Tomas Bulat explains the role of economic institutions in Argentine history and how economic reform can unleash the potential Argentina has in agriculture, viticulture, human capital, education and even mining if the institutional framework was improved. Bulat notes the "mood swings" of the Argentine economy but still sees "potential for growth" if Argentina follows a more open economy framework being "respectful of international rules and agreements."

Australian Ambassador to Argentina, Patricia Holmes, sees potential for Australian-Argentine collaboration and is making higher education ties a priority so future generations of Argentines have exposure and access to Australia in terms of their professional development so they can apply these skills in their home country. Her nominated sectors for further bilateral collaboration are primary industry and related professional services.

"The big interest is in investment and the potential of mining services, in agriculture its technology, water management and genetics," Holmes says.

From Uruguay, Mariana Ferreira, head of

the Competitive Intelligence Unit of Uruguay XXI, tells the economic story of a nation whose geography seemed to work against its economics, particularly at the turn of the 21st Century when its giant neighbours Brazil and Argentina suffered a devaluation (in 1999) and overall economic crisis (in 2002) respectively.

Despite this setback early in the new millennium Uruguay has recovered with a respectable 6% growth rate (between 2005 and 2012) and reasonable fiscal and monetary policy management. Uruguay is an export-orientated open economy.

Had Uruguay been able to be more like Chile and not hemmed in by Mercosur (the trade pact with Brazil, Argentina, Paraguay and now Venezuela) its trade and investment story could have been much different.

However, as the author says, Uruguay is a "plucky" or "maverick" country and has moved fast in terms of social reform under its colourful but frugal President Jose Mujica. Progress in social issues, in health and education, family arrangements and reducing the digital divide has been prominent. The strong interest

in Public Private Sector Partnerships (PPP) has attracted interest and guidance from Australia as Uruguay attempts to balance economic prosperity and social cohesion in how it develops its national infrastructure assets.

Ricardo Varela, Uruguay's Ambassador to Australia, has highlighted resources and agriculture as potential areas for bilateral collaboration.

"Globalisation is bringing our regions closer," he says. "Uruguay is starting some mining activities, which has brought new opportunities to do business and exchange experiences. Both countries need to feed the world, and by sharing this responsibility we shall work together."

What is apparent after looking at each economy in detail is that there are different challenges facing Latin America in terms of political economy. There are the open economies of Mexico, Chile, Peru and Colombia, which have formed the Pacific Alliance and are signing trade agreements with Asia and each other to spread the benefits of trade and investment to their population to improve living standards. Then there are more closed economies like Argentina, which is more interventionist with populist running positions closer to Venezuela. Then there is Uruguay, which, given its open agricultural sector, perhaps could be more like a Pacific Alliance country but is constrained by being tied to its larger neighbours Brazil and Argentina via the Mercosur trade pact.

Overall, the report's co-authors are cautiously optimistic about the forging of stronger ties between Australia and Latin America, particularly as the Asia Pacific region becomes more influential in the global economy and international political institutions.

We hope this is a sound start along that journey.