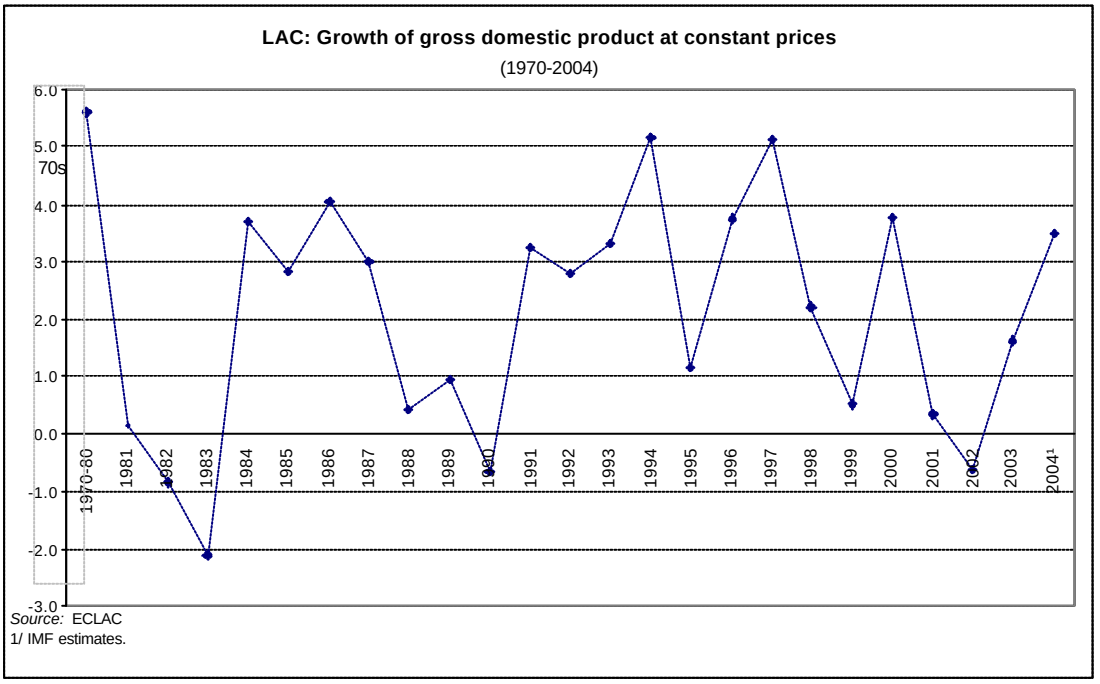
II. MACROECONOMIC FRAMEWORK

A. GDP TRENDS

The stagnation that took hold of the Latin American and Caribbean economies in 2001 and 2002 persisted into 2003, albeit with less intensity, thereby confirming three serious negative features of the regional economic growth process over the last few decades: growth has been weak, unstable and highly vulnerable. A fourth characteristic, its concentration, to be analysed below, completes the troublesome panorama of recent economic development in the countries of Latin America and the Caribbean.

The fall in regional GDP that occurred in 2001 brought the fourth cycle of economic recovery of the last 20 years to a halt almost before it had begun. In fact, there was only one year (2000) of relatively satisfactory growth (3.8%) in this latest phase. Latin America and the Caribbean has not managed to regain sustained economic progress since the external debt crisis of the early 1980s (see figure 16).

Figure 16



The short-lived growth phase midway through that decade (1984 to 1987) was brought to an abrupt end by an episode of uncontrolled inflation in Argentina, Brazil, Nicaragua, Peru and other countries (representing the culmination of adjustment periods stemming from the debt crisis), which resulted in zero or negative growth from 1988 to 1990. The recovery of regional economic growth in the first half of the 1990s was interrupted by the Mexican "tequila crisis" of December 1994. Following this, the Asian crisis and the Russian moratorium caused international prices to collapse and capital flows to the region to dry up, resulting in regional economic stagnation in 1998 and 1999.

The hope now is that 2004 will mark the start of a new growth period, with a regional GDP expansion between of 3.5% and 3.7% forecast for this year. Nonetheless, economic progress in Latin America and the Caribbean remains highly dependent on trends in the international economy, where the recovery of the United States economy plays a key role and there are number of significant risks. The fiscal and current-account deficits in the United States are at their highest levels of recent decades; if confidence in that country's economic recovery evaporates, and if the external financing it is receiving (mainly from Europe and the Asian countries) starts to dry up, the adjustment needed would slow down its growth rate and seriously undermine economic expectations as a whole.[8]

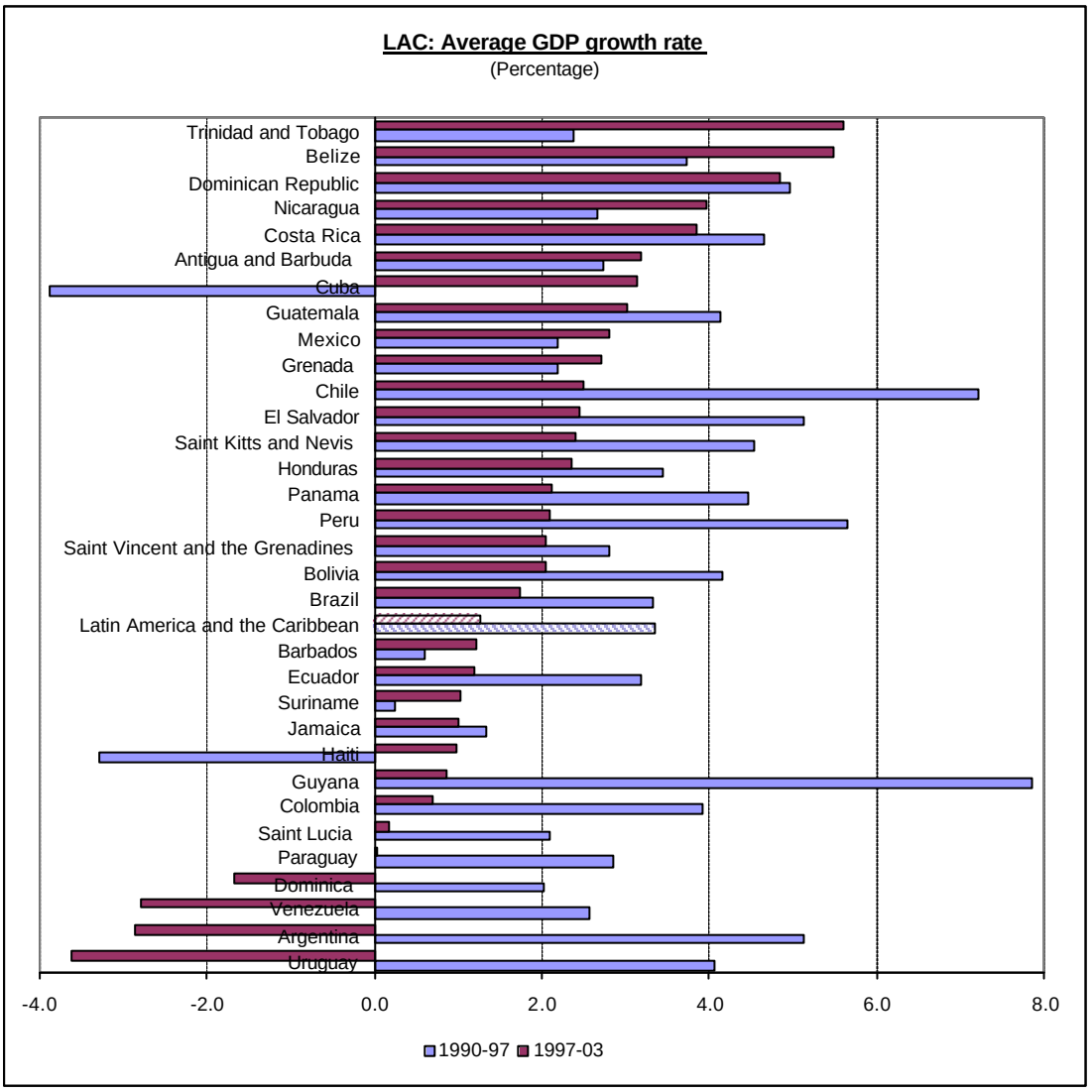
The global medium-term results achieved by the Latin American and Caribbean economy consist of extremely weak progress that has lasted now for over two decades. The stagnation of the 1980s (the "lost decade"), when GDP grew by just 1.1% per year, was followed by a period of modest growth between 1991 and 1997 (3.4% per year). Since then the annual rate has fallen back to just 1.3%. Thus the average rate of expansion over the last 24 years is just 2.2%, way below the levels of 5.7% or higher that were recorded in earlier decades.

In addition to the slow pace of progress, its instability has significant negative effects, mainly because job losses in bad years are not fully restored in good years, so the effects on the quantity and quality of employment, and on poverty, are even more severe.

Despite differences between countries, which sometimes are large, the behaviour of most national economies does not stray far from the average. This was clearly illustrated by the widespread nature of stagnation during the external debt crisis; and economic trends during the 1990s have also been highly generalized. Although the recovery in the early years of the decade was slightly more concentrated in several southern cone and Central American countries, the economic slowdown of recent years has affected all Latin American countries, with only a few (mainly Caribbean) countries immune (see figure 17).

[8] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003.*

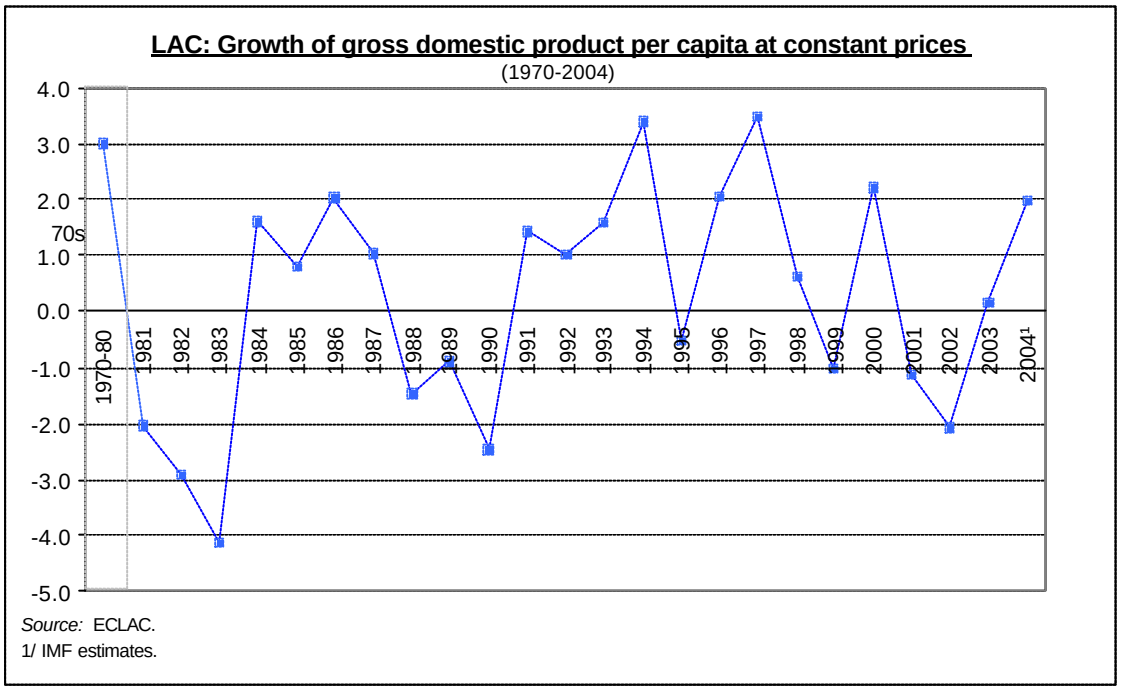
Figure 17


LAC: Average GDP growth rate
(Percentage)
Trinidad and Tobago
Belize
Dominican Republic
Nicaragua
Costa Rica
Antigua and Barbuda
Cuba
Guatemala
Mexico
Grenada
Chile
El Salvador
Saint Kitts and Nevis
Honduras
Panama
Peru
Saint Vincent and the Grenadines
Bolivia
Brazil
Latin America and the Caribbean
Barbados
Ecuador
Suriname
Jamaica
Haiti
Guyana
Colombia
Saint Lucia
Paraguay
Dominica
Venezuela
Argentina
Uruguay
-4.0
-2.0
0.0
2.0
4.0
6.0
8.0
1990-97
1997-03

i. Output per capita

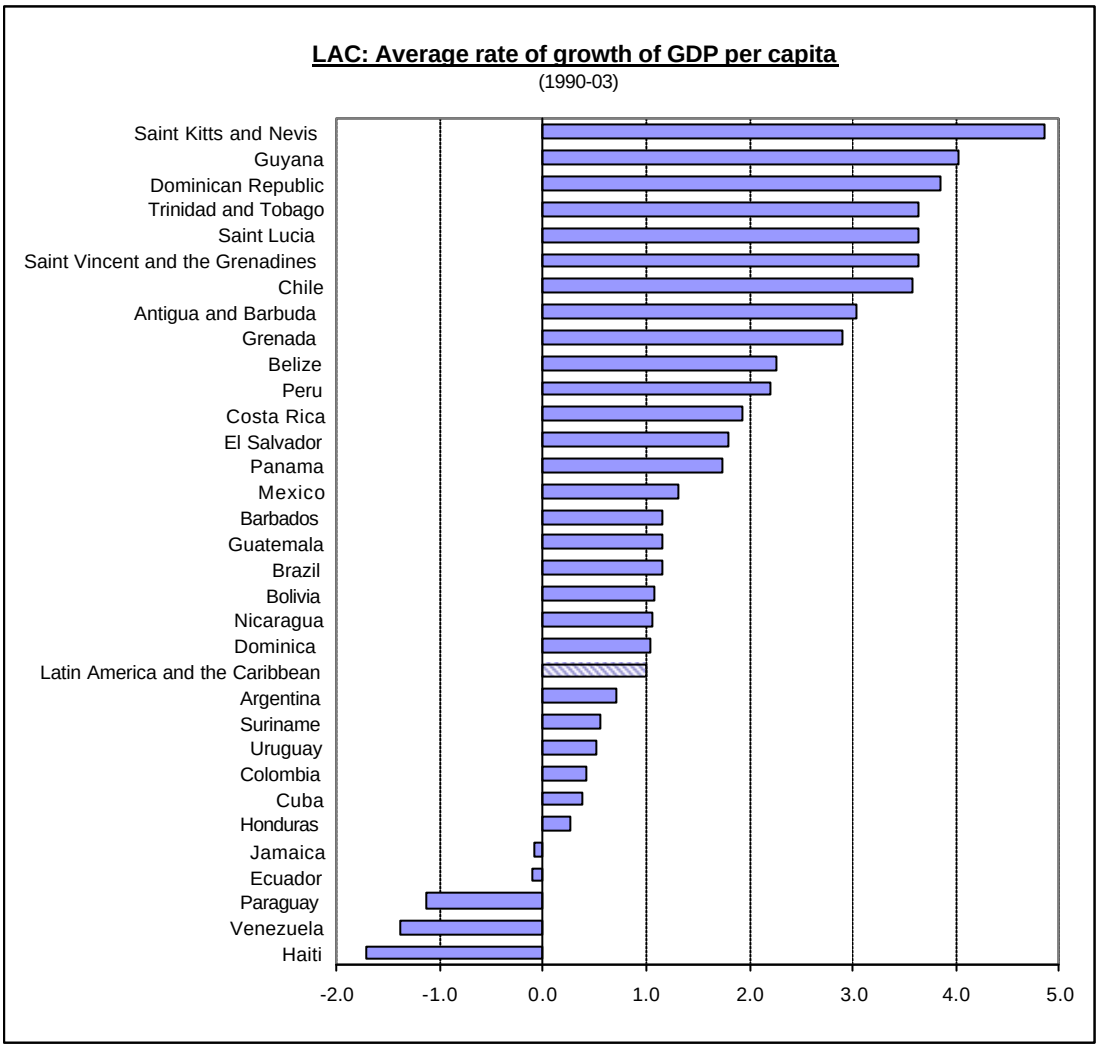
The trend of regional GDP has meant unsatisfactory growth in output per capita over the last decade. Following the decline in the 1980s (negative growth of -1.1% per year), progress from 1990 to 2003 averaged just 1% per year, well below the 3% achieved before the debt crisis. Moreover, sharp fluctuations also had negative consequences for the fight against poverty and produced an economic environment marred by crises (see figure 18).

Figure 18



Within the generally slow and unstable growth achieved by Latin America and the Caribbean over the last decade, there are significant differences from one country to another. Generally speaking, the Caribbean countries grew faster per-capita terms, whereas only Chile among the Latin American countries achieved a rate of progress better than 3% per year. In most Latin American countries, output per capita remained virtually flat, and in five of the region's countries it actually declined over the decade (see figure 19).

Figure 19



Despite the significant differences mentioned, economic growth displays broadly similar problems across the region, both in its historical-structural aspects, and because the various countries share key characteristics in terms of international participation, and because of their interdependence resulting from subregional integration and bilateral economic agreements. Accordingly, the difficulties faced by the Latin American and Caribbean economies in achieving rapid and sustained economic growth, and the disappointing performance of recent years, can partly be explained by common factors, especially in relation to financial flows and the effects of changes taking place on international markets.

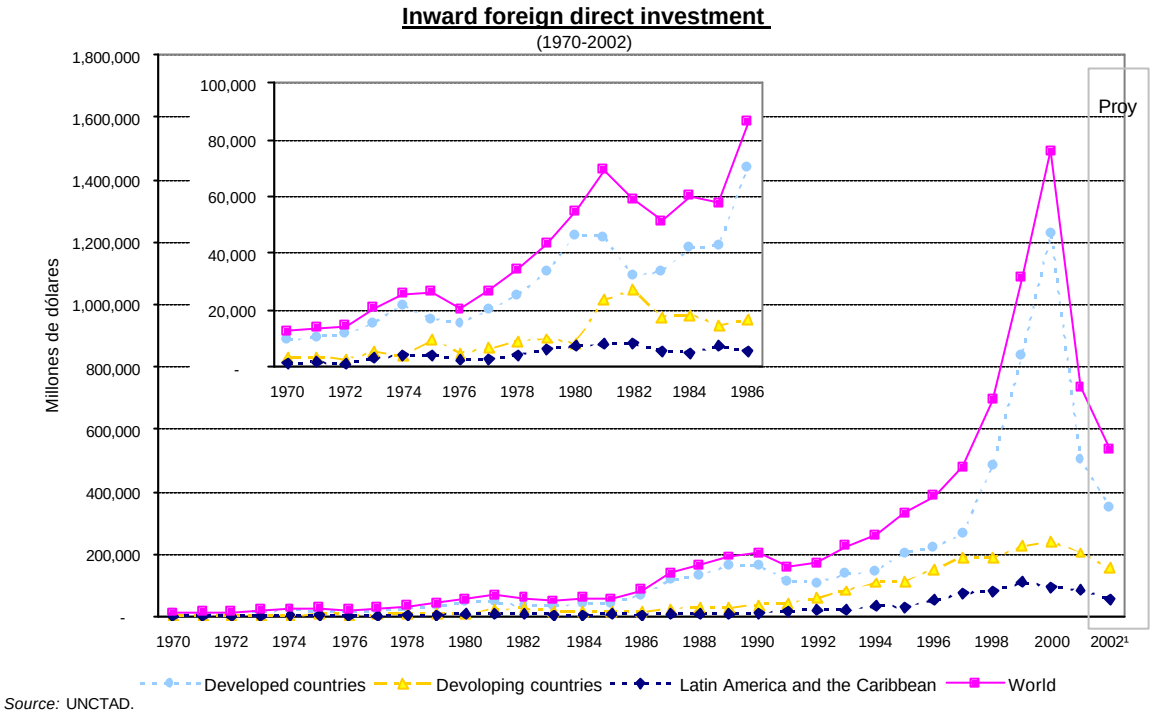
B. INCIDENCE OF CAPITAL FLOWS

The increasing globalization of economic processes has opened up new growth possibilities for Latin American and Caribbean countries; at the same time, it has significantly expanded the influence exerted by the international context over the pace of progress in the region's economies. This has generated significant procyclical forces. In periods of vigorous economic growth, burgeoning world markets generate opportunities for profitable productive activities in the countries of the region, which makes them more attractive to foreign capital, thereby generating a process of greater investment and stronger growth. In contrast, during periods of faltering world economic activity, export prices fall, the profitability of export activities declines and growth slows. In such conditions, the region's economies become less attractive to foreign investment, access to financing dries up, and financial resources flow out; as a consequence, the cost of capital rises and economic activity is slowed still further. This, in turn, generates less employment and less domestic demand, thereby reinforcing the stagnation.

Capital flows, which have been a driving force in the contemporary economic dynamic and were clearly implicated in the widespread slump among growth rates during 2001 and 2002, are concentrated above all in the developed world. Nonetheless, in relation to GDP, they are very important for a number of developing countries, particularly in Latin America and the Caribbean.

During the 1970s and 1980s, in general 75% or 80% of FDI flows were destined for developed countries; of the remainder, Latin America and the Caribbean received about half. Starting in the 1990s, as the volume of investment began to grow, the annual variation has also increased substantially, and developing countries have been receiving between 20% and 40% of the total. The largest FDI flows to developing countries are currently channelled to Asia, with a major increase in China in particular (see figure 20).

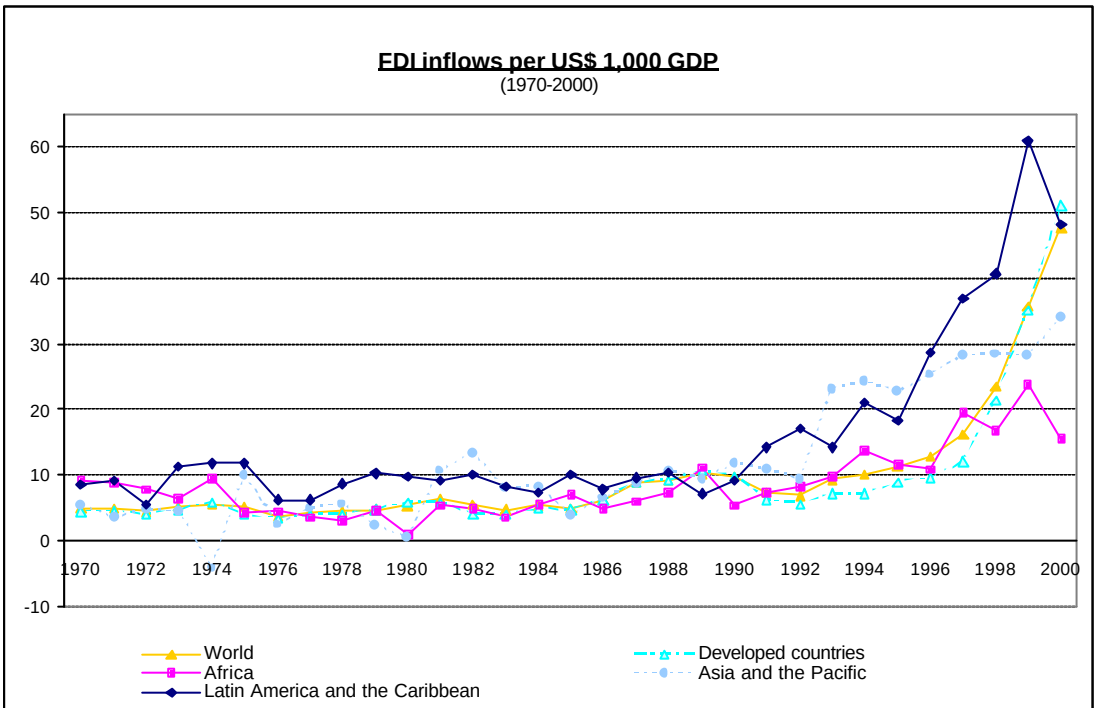
Figure 20



Source: UNCTAD.

Nonetheless, Latin America and the Caribbean is the region in which FDI flows have the greatest weight relative to output. In 1970, foreign direct investment into the region amounted to just US$ 1.438 billion; in the two ensuing decades, it grew, albeit with fluctuations, to reach just over US$ 10 billion by 1990. Growth became explosive as from 1994, when FDI inflows exceeded US$ 30 billion, and it peaked in 1999 at over US$ 109 billion. The most recent crisis also resulted in reduced capital flows to the region, and levels declined over the three following years to US$ 57 billion in 2002.

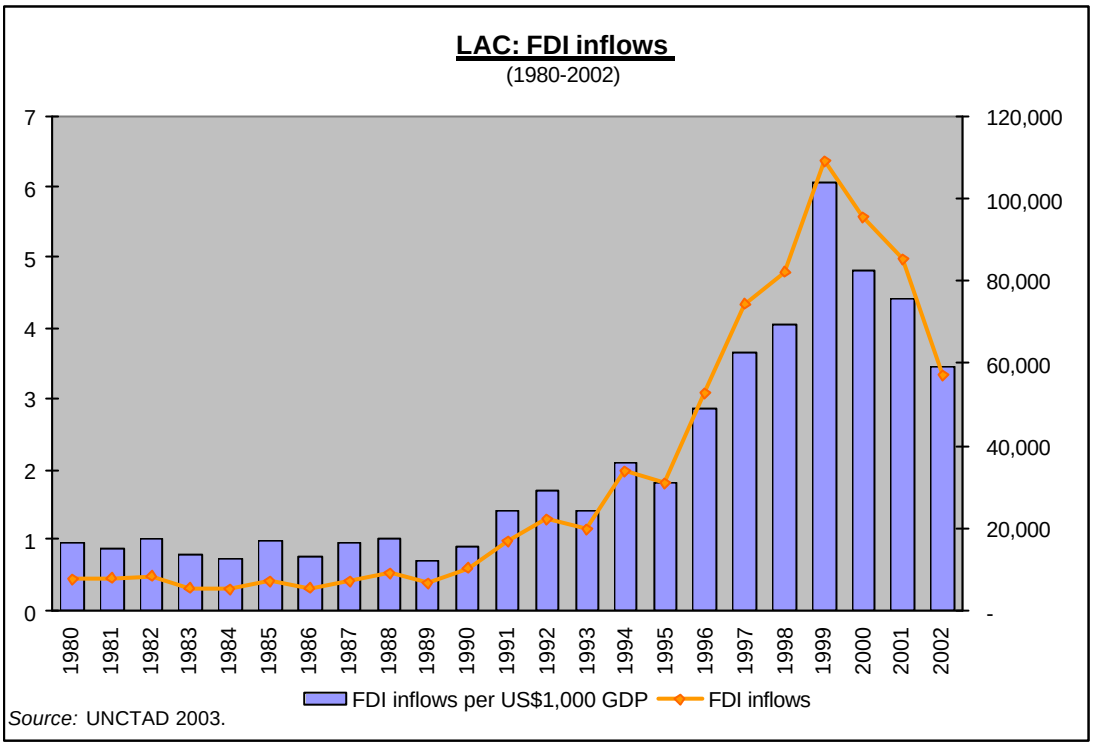
Figure 21



Source: UNCTAD.

Capital inflows represented about 1% of regional GDP during the 1980s; but in 1994, their relative importance began to increase, climbing to 2.1% in that year, and it continued growing to reach a maximum in 1999, equivalent to 6.1% of regional GDP. This clearly improved possibilities for financing development and economic growth in the region.[9]

Figure 22



[9] The figures cited come from UNCTAD. The ECLAC data used below for each country's FDI/GDP ratio exclude FDI in Aruba, Anguilla and Montserrat, and also in financial havens.

FDI flows into the region have been concentrated in a few countries, with the majority of capital flows being channelled to Brazil and Mexico, followed by Argentina and Chile. Nonetheless, in relation to GDP capital flows have also been significant in several other countries, particularly in the Caribbean.

Figure 23

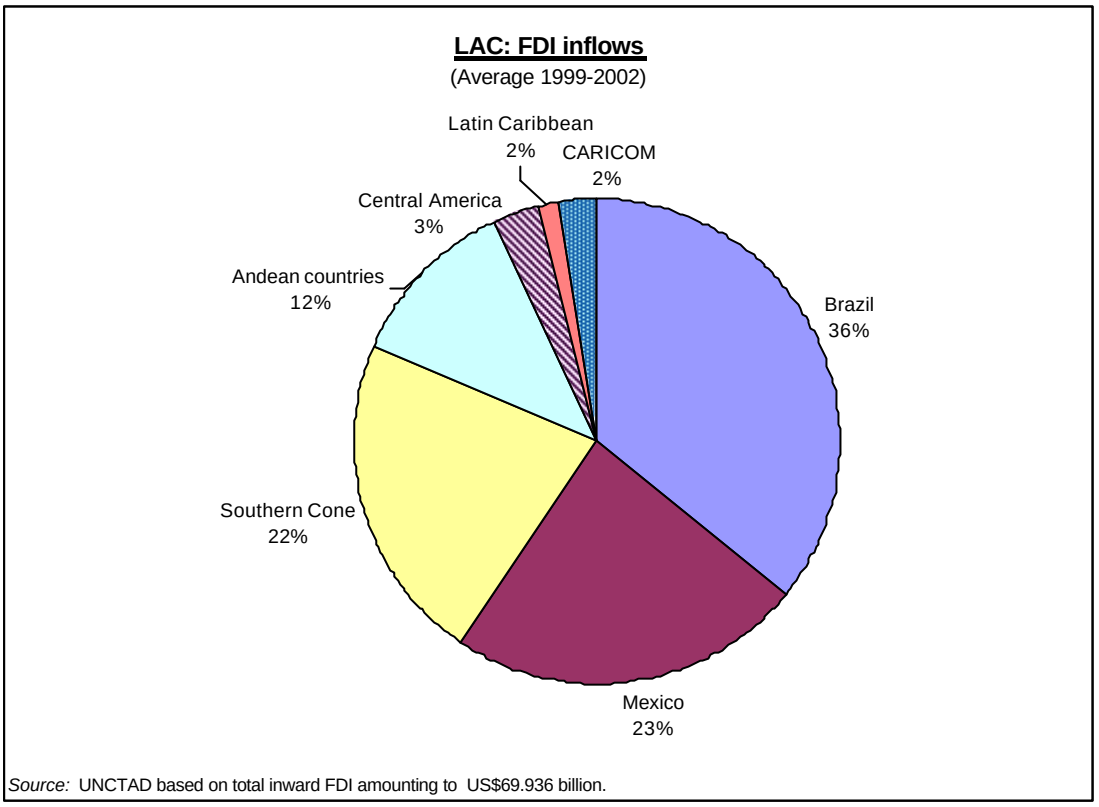
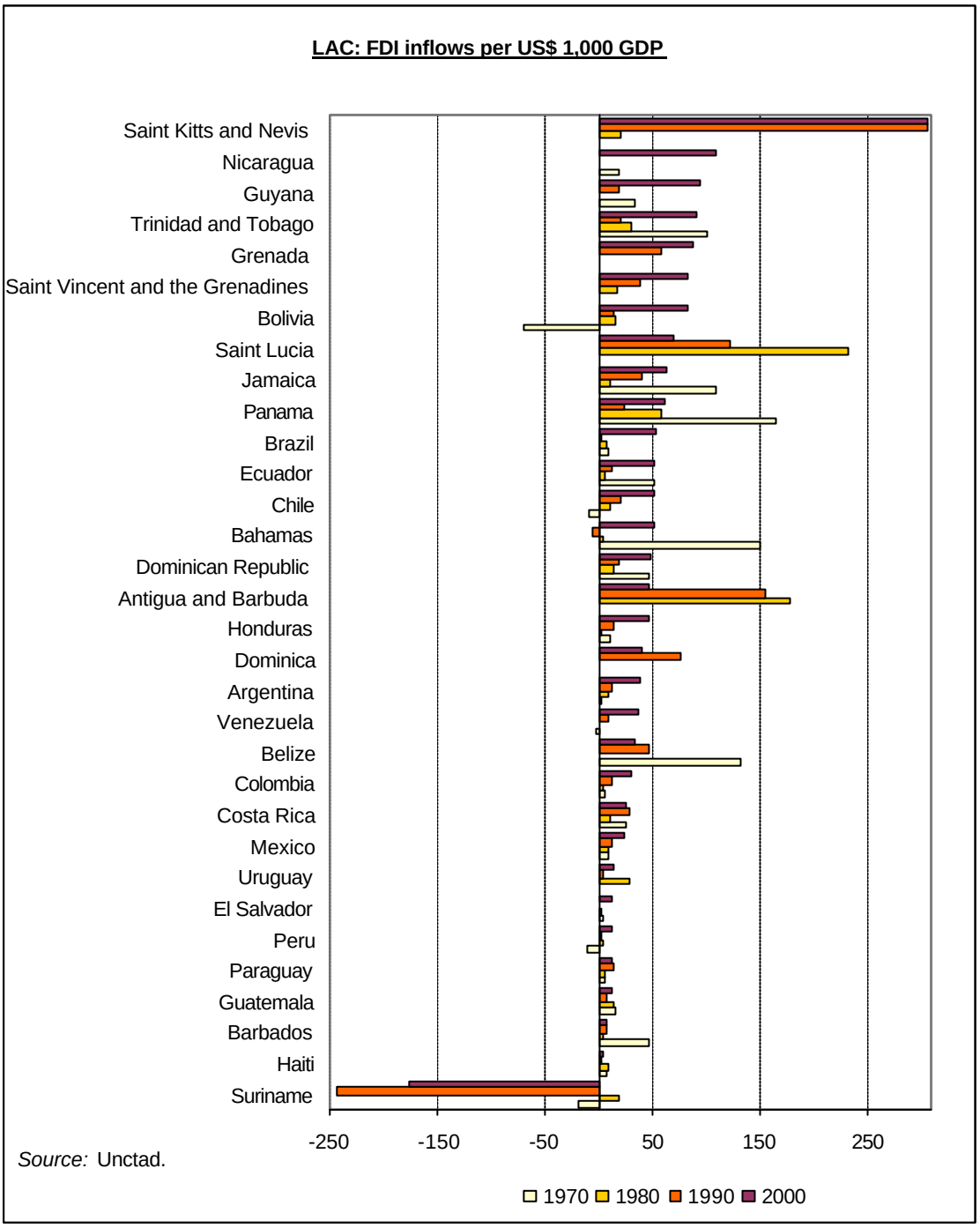


Figure 24



Source: Unctad.

In the context of economic liberalization, the structural reforms carried out in the Latin American and Caribbean economies – especially capital-account liberalization, export orientation and participation in wide-ranging subregional trade agreements – have given a powerful stimulus to external investment. Such funds play a major role in financing development; nonetheless, their costs are unduly variable, depending on circumstances outside the control of the region's countries. In years of greater inflow, capital of this type makes it possible to offset other outflows and to finance the current account deficit; Nonetheless, their volatile nature demands alert and careful management.

Table 13

FDI inflows per US$ 1,000 GDP

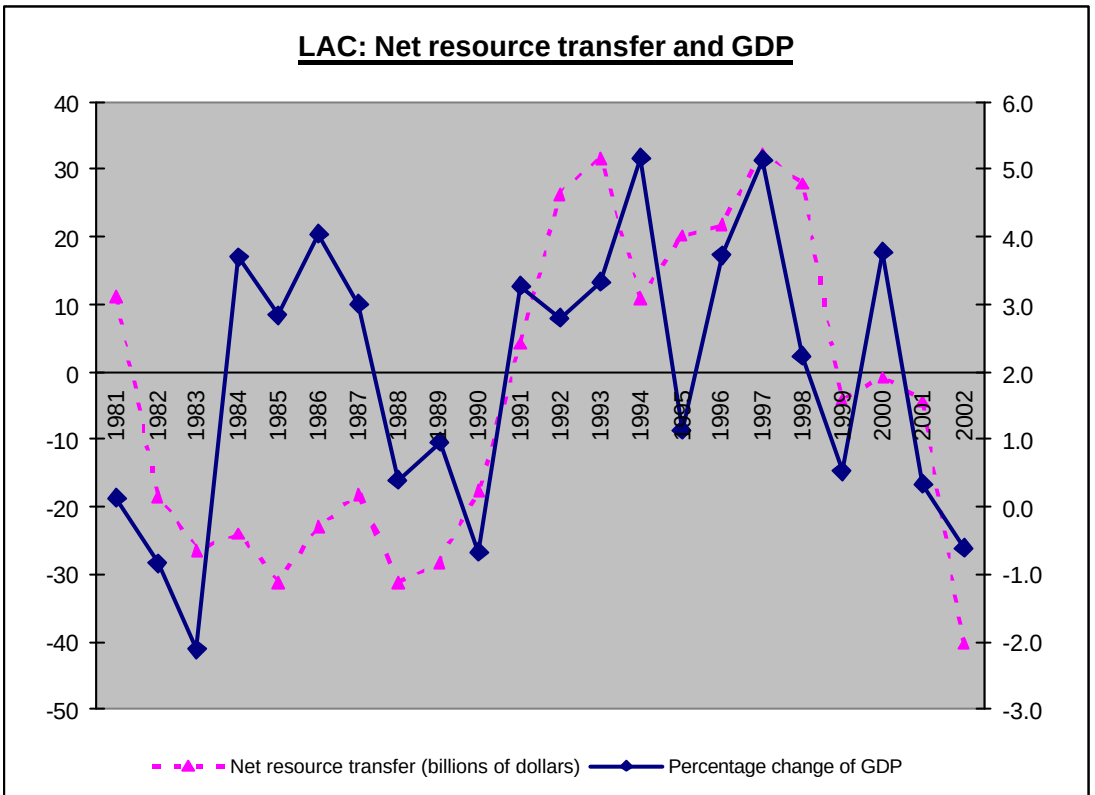
	1970	1980	1990	2000
LAC[1] (UNCTAD)	**8**	**10**	**9**	**48**
Brazil	9	8	2	55
Mexico	9	9	13	26
Argentina	3	9	13	39
Chile	-9	10	22	52
Paraguay	6	7	14	13
Uruguay	1	29	4	14
Bolivia	-70	17	14	84
Colombia	6	5	12	29
Ecuador	53	6	12	53
Peru	-10	3	2	13
Venezuela	-2	1	9	37
Costa Rica	27	11	28	26
El Salvador	3	2	0	13
Guatemala	15	14	8	12
Honduras	12	2	14	48
Nicaragua	19	n.a.	1	111
Panama	165	57	26	61
Haiti	7	9	3	3
Dominican Republic	48	14	19	48
Antigua and Barbuda	n.a.	178	155	48
Bahamas	149	3	-6	52
Barbados	48	3	7	7
Belize	133	n.a.	47	34
Dominica	n.a.	n.a.	78	40
Grenada	n.a.	0	58	87
Guyana	34	1	20	94
Jamaica	111	10	41	64
Saint Kitts and Nevis	n.a.	21	307	306
Saint Lucia	n.a.	232	123	69
Saint Vincent and the Grenadines	n.a.	18	39	85
Suriname	-19	20	-242	-175
Trinidad and Tobago	101	30	22	90

Source: UNCTAD.
1/ According to the UNCTAD classification, i.e. including Aruba, Anguilla, Montserrat and financial havens.

The fluctuations in the economic progress of Latin America and the Caribbean are highly correlated with international capital flows. The net resource transfer abroad that was generated during the debt crisis had been reversed in favour of the region as from 1991; but since 1999 the net transfer has again turned negative. In other words, as occurred during the "lost decade", the region is suffering from the perverse effect of a resource flow from countries where capital is scarce toward those where it is relatively more abundant; and 2003 marked the fifth consecutive year of net resource outflows. Until 2001, the transfer out of the region as a whole was relatively small – under US$ 4 billion (although outward resource transfer from Argentina amounted to almost US$ 60 billion, this was offset by capital inflows into other countries). Nonetheless, in 2002, the net transfer totalled over US$ 40 billion, and in 2003 another US$ 29 billion. The cumulative drain of resources in the five years is equivalent to 5% of regional GDP, thereby placing

a major burden on financing conditions for development and economic growth[10] (see figure 25).

Figure 25

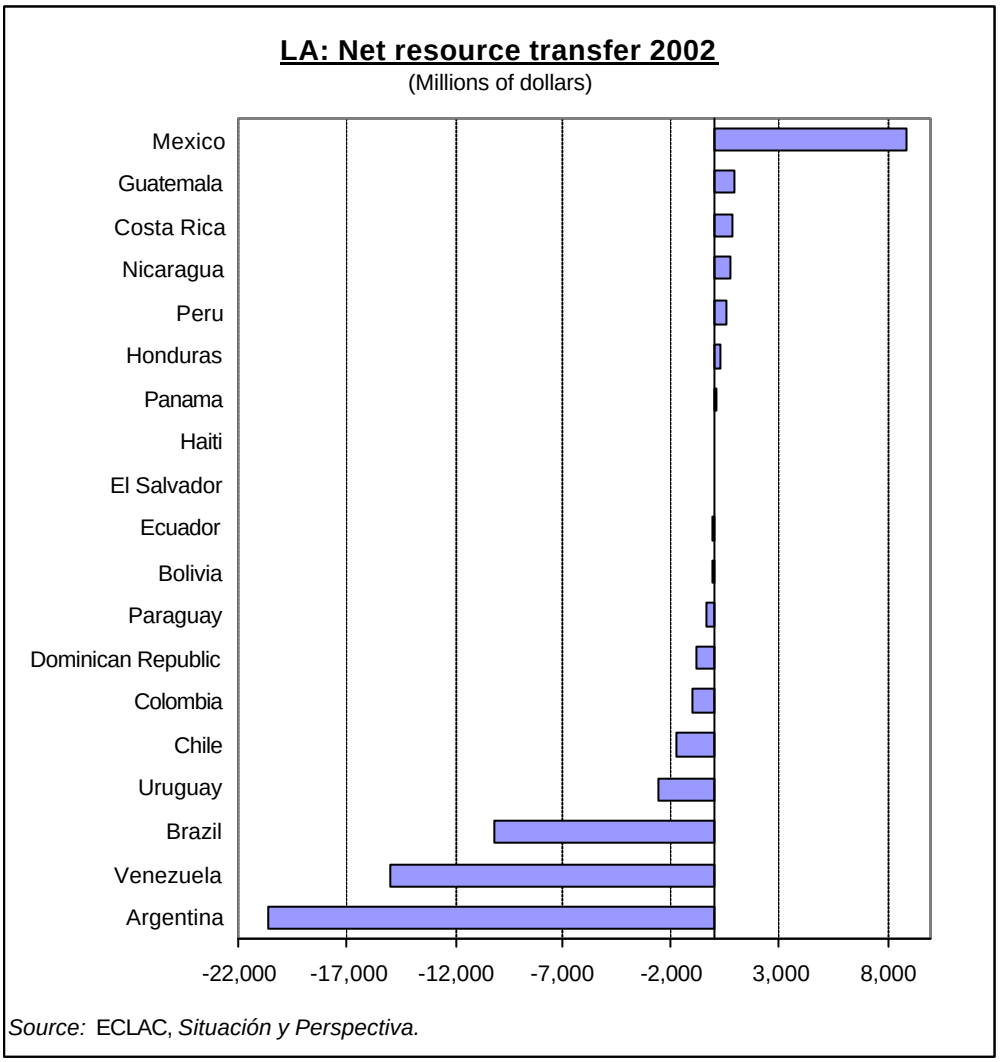


Source: ECLAC, *Situación y Perspectiva, 2003*.

[10] ECLAC calculates the net resource transfer as the net inflow of capital minus the balance on the income account (net profit and interest payments).

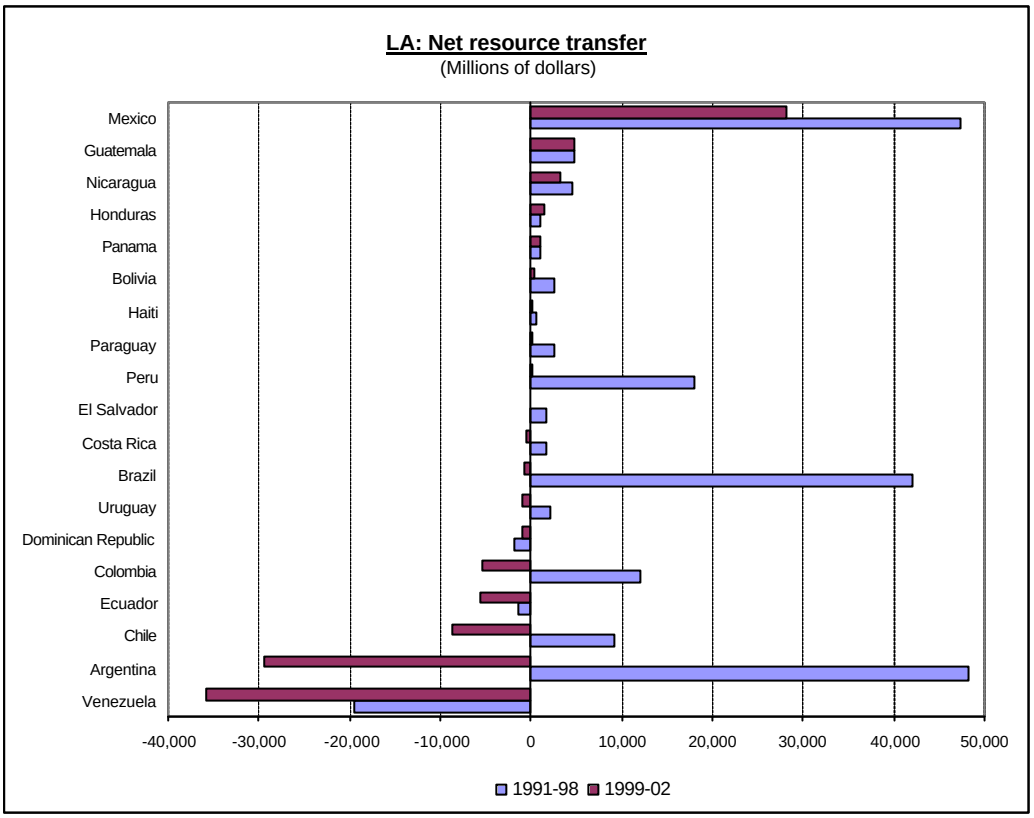
In 2002 and 2003 net negative transfers climbed to very high levels in several countries, especially Venezuela and Argentina; in other cases positive transfers were reduced, particularly in Mexico (see figures 26 and 27).

Figure 26



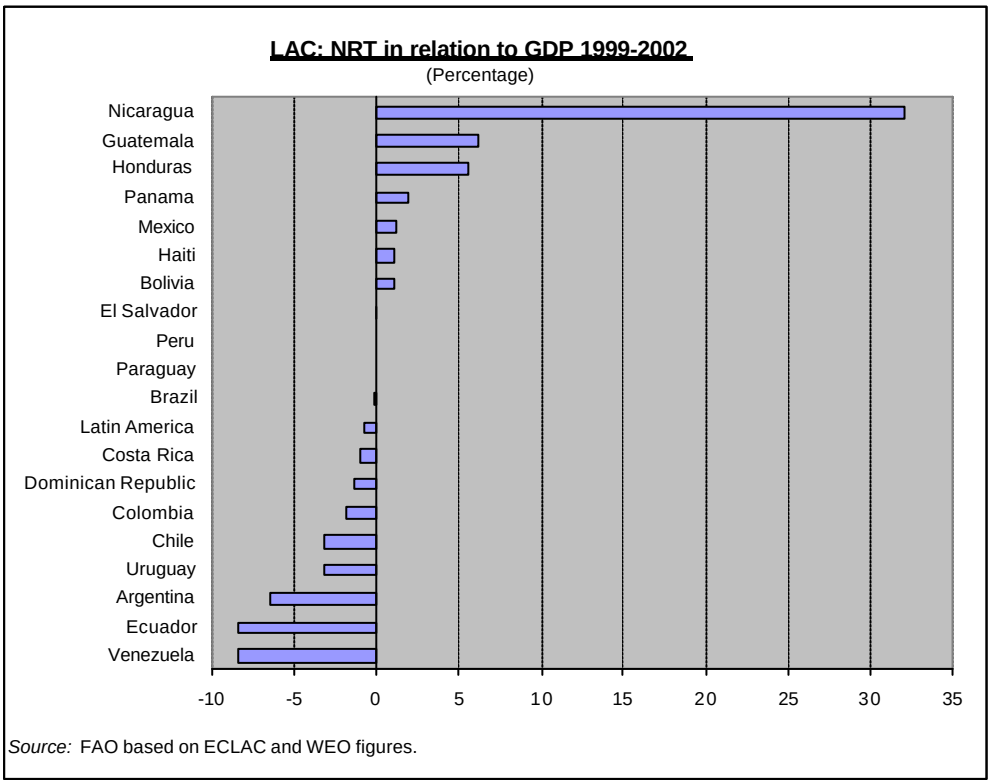
Source: ECLAC, *Situación y Perspectiva.*

Figure 27



Relative to GDP, positive transfers remain significant in some countries, especially Central American ones (see figure 28).

Figure 28



As mentioned above, the trend of capital flows is not one-way traffic, but responds to complex processes that largely depend on conditions that are external to the region's countries. For example, a rise in international interest rates, for reasons completely unrelated to the Latin American and Caribbean economies, can significantly raise the cost of financing and hence reduce investment and undermine economic growth in the region. This heightens credit risk, which pushes interest rates even higher and poses additional obstacles to growth. Autonomous capital inflows may be discouraged, thereby generating a vicious circle that makes it increasingly difficult to restore the growth process.

International financial conditions are outside the control of the region's countries, yet a stable world growth process without frequent and relatively profound crises seems a remote prospect in the current international setting. It is therefore most likely that external shocks will continue to buffet the Latin American and Caribbean economies. Nonetheless, the degree of vulnerability and the intensity of the negative effects also depend on domestic conditions and policies. Among other things, these include: the relative balance on the current account, the share of domestic saving in development financing, the size of the fiscal deficit, the quality of the financial system and bank supervision, exchange-rate policies, regulations on capital inflows and the macroeconomic policy framework. These elements, together with the level and conditions of external debt, may imply very different capacities in each country to respond to the effects of international crises.

In the international domain, discussion is also taking place on a number of alternatives for putting mechanisms in place to discourage speculative currency movements and promote stability on financial markets and in exchange rates. Nonetheless, there are major problems in designing an efficient, non-distorting mechanism, let alone in putting it into practice.[11]

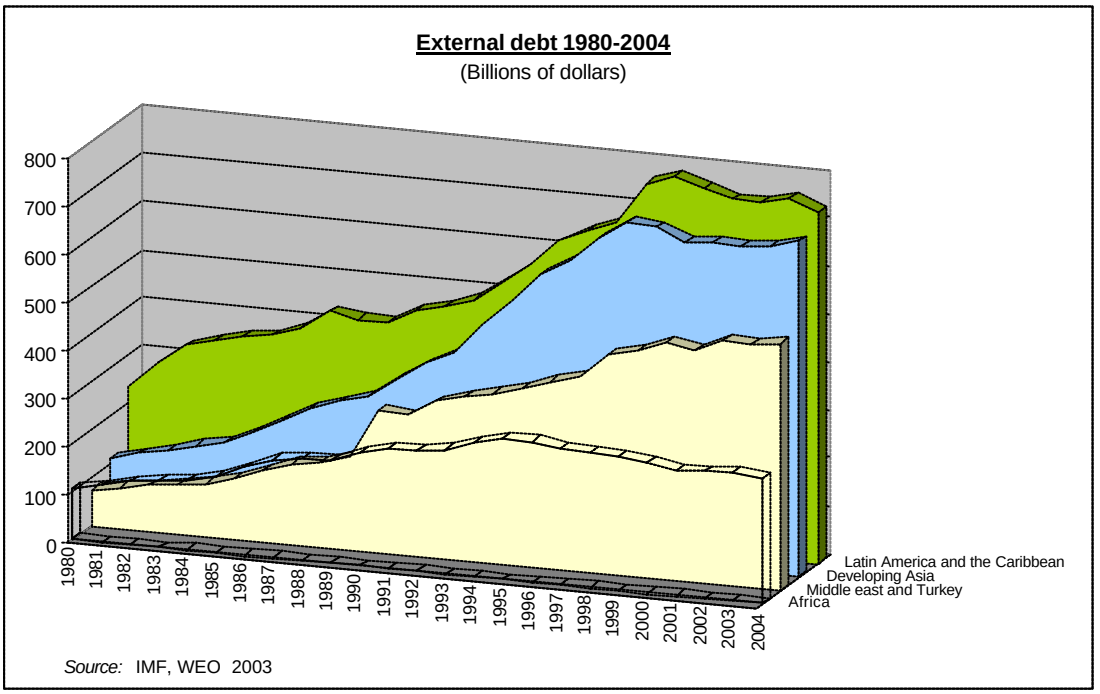
C. EXTERNAL DEBT

A highly relevant factor in the vulnerability of economic growth in Latin America and the Caribbean, which puts heavy pressure on economic balances viz-à-viz the rest of the world, is the region's external debt. In terms of its weight in relation to macroeconomic variables and the conditions agreed, the external debt continues to be a major constraint on possibilities for economic and social progress.

[11] The so-called "*Tobin tax*" is one of the initiatives that has been most widely discussed in recent months, although, for the time being, technical objections seem to be directing the search towards other mechanisms.

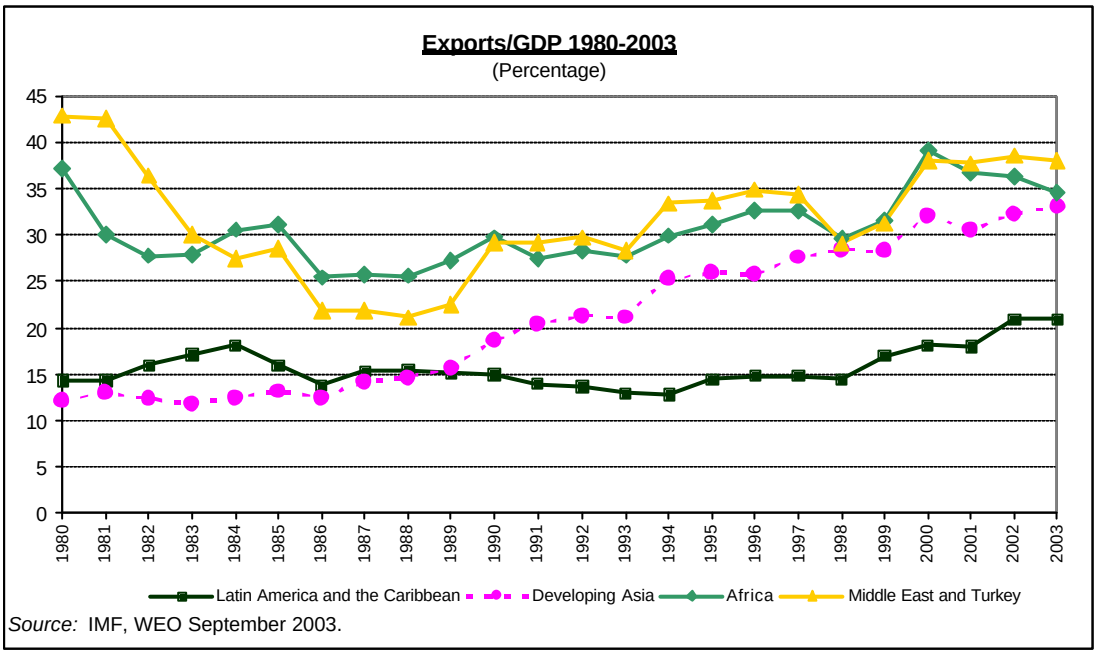
Changes in Latin America and the Caribbean's international financial relations during the 1970s and 1980s, which led to the external debt crisis, triggered the first and most dramatic of the external shocks that have hit the region since then. The rapid process of foreign borrowing by relatively closed economies occurred with greater intensity in the Latin American countries and in some Caribbean ones, than in other regions of the world (see figure 29).

Figure 29



The traditional emphasis on producing for the domestic market and the weak outward orientation of growth that dominated the Latin American development strategy for several decades (and still persists in comparison to other regions of the developing world) is a significant factor in aggravating the region's external vulnerability. Until the 1980s, while in Africa and the Middle East exports represented about 30% of output, in Latin America and the Caribbean, and in Asia, the proportion was below 15%. During the 1990s the situation in Asia changed, however, as its exports grew to over 30% of GDP; nonetheless, in Latin America and the Caribbean, the low share of exports persisted until 1998, and they currently account for just 21% of GDP, reflecting in particular the small share of foreign trade in the South American economies, except for Chile.

Figure 30



The total foreign debt of Latin America and the Caribbean amounts to US$ 756 billion and is the highest of all regions in the developing world. Nonetheless, in relation to GDP, the region's indebtedness is about average for developing countries. Taking the average of recent years, the region's external debt represents 42.2% of GDP – higher than in Asia (30%), but below the level in Africa and the Middle East (60%). The region's external debt represents more than twice the value of its exports, a higher ratio than any other region. In 1986, the debt grew to represent nearly four years of exports, and even during the early years of the 1990s the ratio stood at nearly three times. These figures are way above those in other developing regions[12] (see table 14).

Table 14

Developing countries: External debt, debt service and indicators (average 1999-2003)

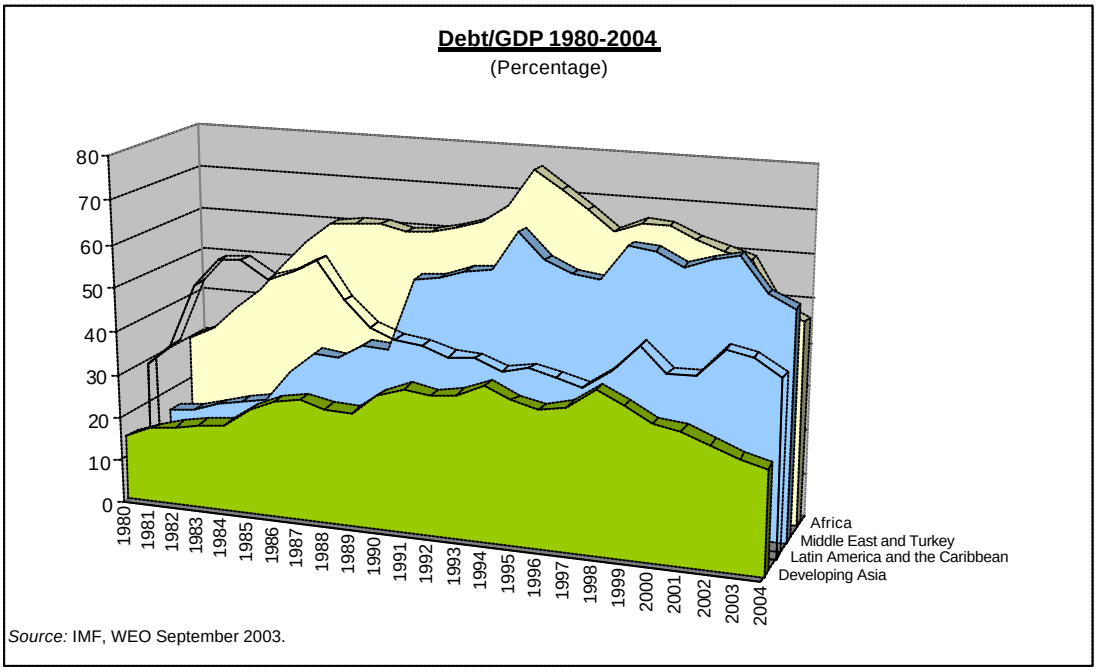
(Billions of dollars)

Region	External debt	Debt service	Interest	GDP	Exports
	(Billions of dollars)				
Developing countries	2,203.6	334.3	102.5	5,419.1	1,536.5
Africa	269.4	28.1	11.1	455.9	161.9
Developing Asia	683.2	101.4	28.2	2,339.0	732.7
Middle East, Malta and Turkey	493.2	39.9	12.4	823.6	303.1
Latin America and the Caribbea	755.8	164.9	**50.8**	**1,797.9**	338.8

Region	Exp./GDP	Serv./debt	Int./debt	Debt / GDP	Serv./GDP	Debt/Exp.	Serv./Exp.	Int./Exports
	(Percentage)							
Developing countries	28.3	15.2	4.7	40.8	6.2	145.5	22.1	6.8
Africa	35.6	10.4	4.1	59.6	6.2	168.6	17.5	7.0
Developing Asia	31.2	14.9	4.1	29.5	4.4	95.3	14.0	4.0
Middle East, Malta and Turkey	36.7	8.1	2.5	60.1	4.8	165.0	13.3	4.2
Latin America and the Caribbea	**19.0**	**21.8**	**6.7**	**42.2**	**9.2**	**224.2**	**49.0**	**15.1**

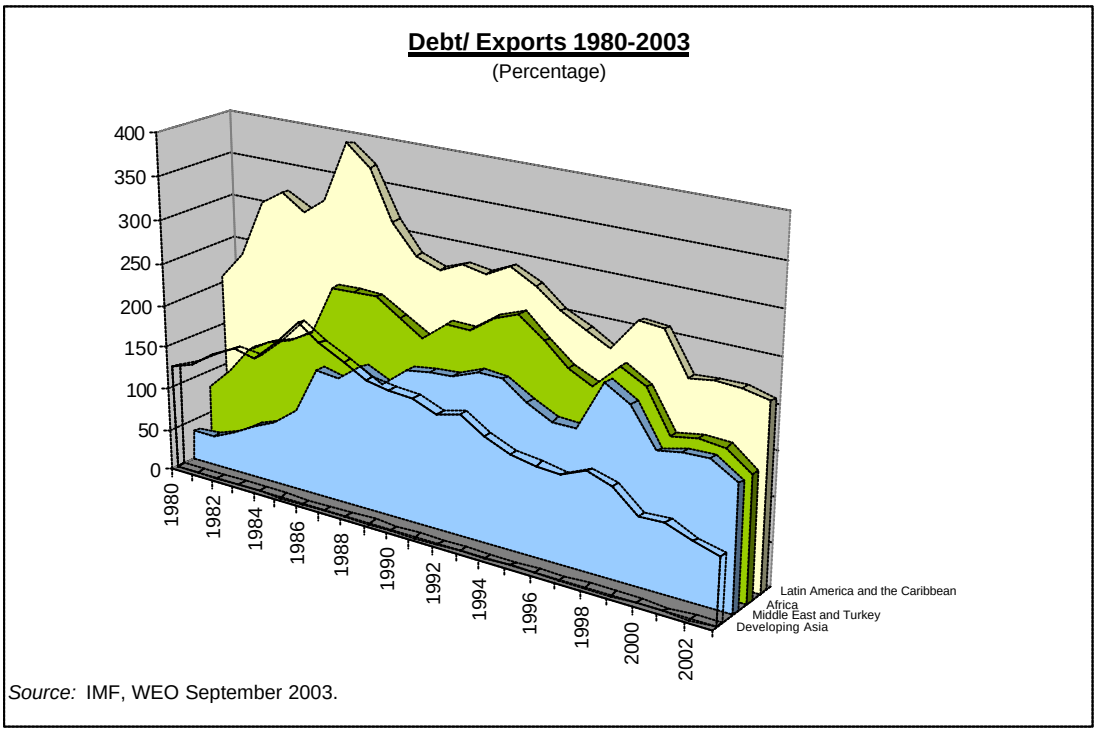
Source: World Economic Outlook Database, Sept 2003.

Figure 31



[12] Average indicators for the last five years (1999-2003).

Figure 32



Source: IMF, WEO September 2003.

In addition, partly due to this greater vulnerability, compounded by the region's relative development level and various crises and restructurings, the borrowing conditions imposed on Latin America and the Caribbean are more stringent than for other regions, so indices of payments in relation to export earnings are much higher. Considering the average for the last five years, interest paid by the countries of the region has amounted to about 15% of exports (over 30% at start of the 1980s), whereas in Africa, the equivalent figure is 7%, and in Asia and the Middle East, 4%. Latin America and the Caribbean has also had to assign 49% its export earnings to service its external debt, while the figure in other regions varies between 13% and 17% (see again table 14).

Figure 33

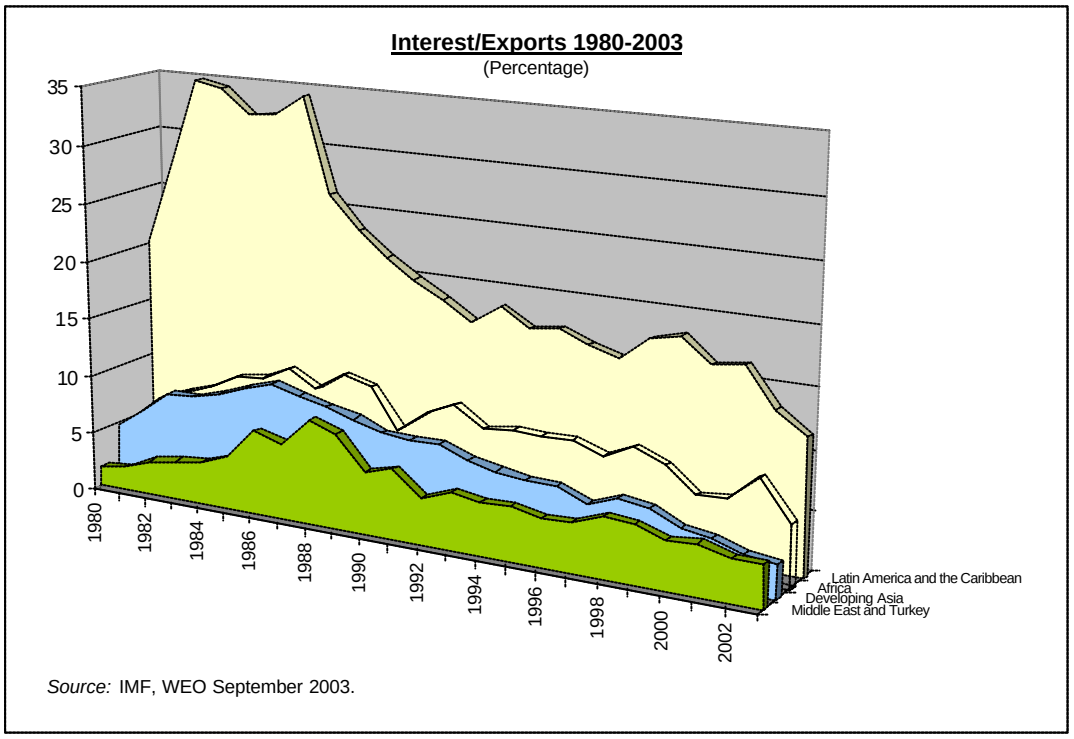
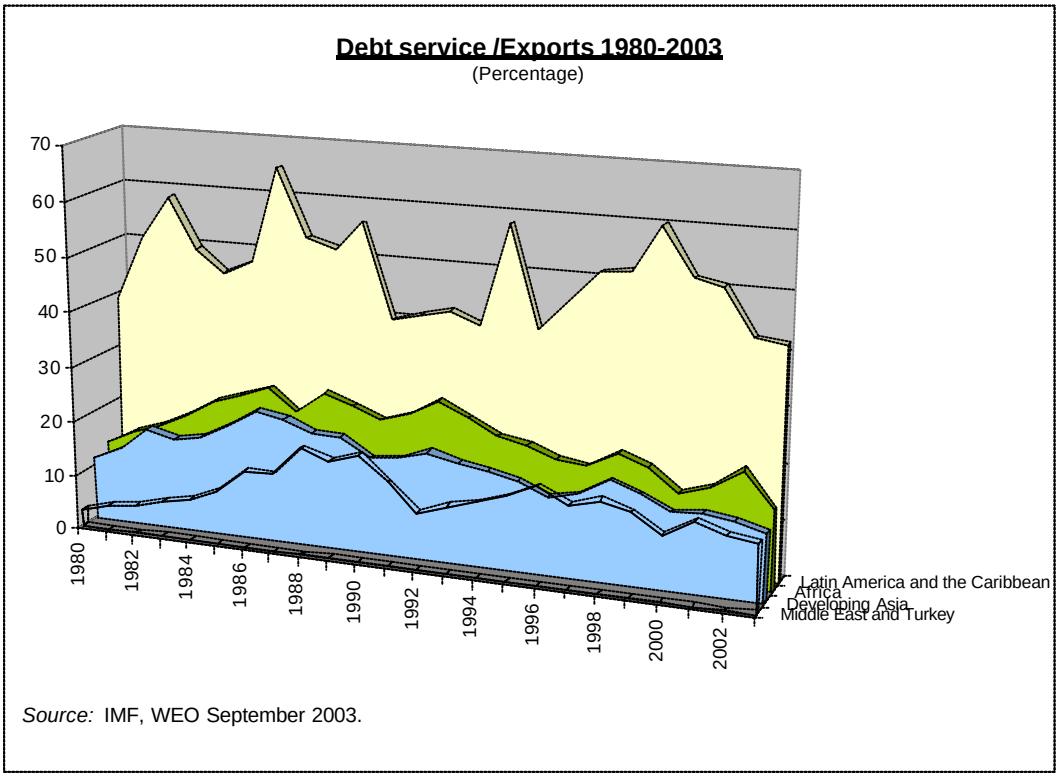


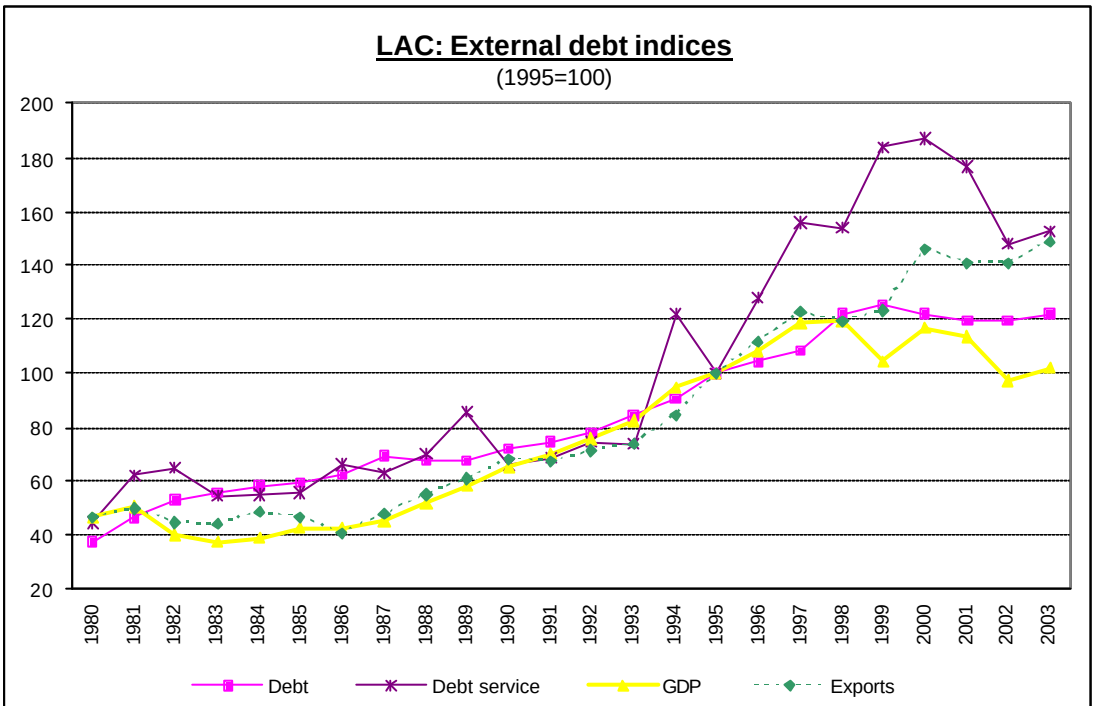
Figure 34



The early over borrowing of Latin American and Caribbean countries, compounded by difficulties in achieving more outward-oriented growth have made the external debt a much heavier burden in Latin America than in the other regions of the developing world. This also heightens vulnerability with respect to changes in the world economic context.

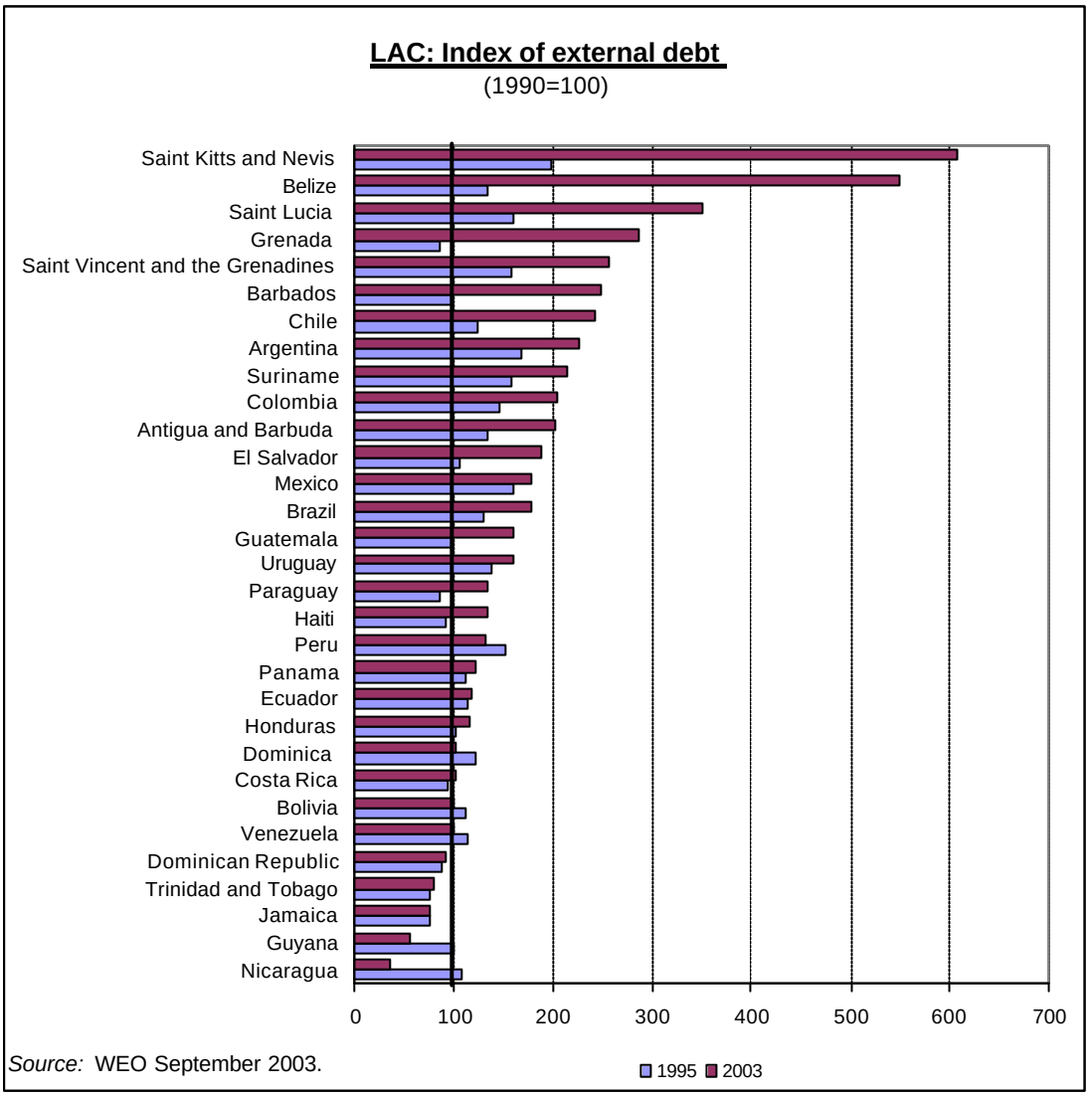
Although the external debt crisis has been overcome and most countries of the region have access to financing on international markets, the level and conditions of borrowing remain a source of vulnerability with regard to uncertainty and the variability of external conditions. During the 1990s, the relative weight of debt service grew strongly and borrowing levels increased, especially in several Caribbean countries. There were only six countries whose total debt shrank during the decade (Nicaragua, Guyana, Jamaica, Trinidad and Tobago, Dominican Republic and Venezuela) (see figures 35 and 36).

Figure 35



Source: IMF, WEO September 2003.

Figure 36



Source: WEO September 2003.

Although debt indicators as a regional average are now considerably more healthy than those of the 1980s, several countries still display indices that could indicate overborrowing pressure. In 13 countries, the external debt represents more than half of gross national product, and in nine countries it is equivalent to more than two years' exports. During the last few years, Brazil and Argentina have had to allocate about 90% of their export earnings to service their debt (especially from 1998 to 2001), with interest payments accounting for over a quarter of this (see table 15).

Table 15

LAC: External debt indicators

(Average 1999-2003)

Country	Debt	Debt service	Debt/GDP (N)	Debt/exports 1/	Service/exports 1/	Interest/exports 1/
	Billions of dollars	Dollars	Ratio			
Latin America and the Caribbean	755.8	164.9	42.2	224.2	49.0	15.1
Latin America	745.8	163.4	42.4	229.9	50.5	15.5
Brazil	222.7	59.3	43.3	338.5	91.0	25.1
Mexico	175.5	45.4	30.2	157.1	40.6	10.8
Southern Cone	193.5	33.0	70.3	329.3	56.2	19.7
Argentina	139.9	25.2	80.8	465.7	83.7	30.0
Chile	38.2	6.2	54.5	167.9	27.3	7.5
Paraguay	2.3	0.2	35.8	83.4	8.8	4.7
Uruguay	13.1	1.4	83.1	415.3	45.0	22.8
Andean countries	122.7	21.9	46.3	213.9	38.1	14.8
Bolivia	4.3	0.2	51.5	280.8	16.3	5.9
Colombia	37.1	8.4	48.3	255.3	58.2	19.4
Ecuador	14.8	2.1	73.7	250.3	35.6	23.1
Peru	28.1	3.8	51.2	320.9	43.9	18.2
Venezuela	38.5	7.3	37.7	145.8	27.8	10.1
Central America	26.3	2.5	38.5	124.9	11.9	5.8
Costa Rica	3.3	0.6	19.8	43.9	7.9	3.1
El Salvador	3.3	0.3	27.8	111.7	11.1	4.5
Guatemala	3.4	0.7	18.0	91.5	18.2	6.0
Honduras	4.5	0.4	72.2	182.1	16.1	5.3
Nicaragua	5.7	0.2	230.7	605.1	18.9	8.0
Panama	6.1	0.9	50.1	182.1	27.6	12.7
Latin Caribbean	5.1	0.7	20.4	56.7	7.5	2.9
Haiti	1.1	0.04	30.0	242.6	7.9	3.0
Dominican Republic	4.0	0.6	18.7	46.4	7.5	2.9
CARICOM	10.0	1.5	34.7	78.4	11.5	5.2
Antigua and Barbuda	0.6	0.05	81.0	108.6	9.0	6.4
Barbados	1.1	0.16	45.8	84.2	11.7	9.3
Belize	0.6	0.09	74.0	125.7	18.3	5.3
Dominica	0.1	0.01	33.6	65.5	9.5	4.1
Grenada	0.2	0.02	45.3	88.8	11.9	5.1
Guyana	1.2	0.06	169.2	177.6	9.5	4.6
Jamaica	3.4	0.69	45.2	97.5	19.6	7.8
Saint Kitts and Nevis	0.2	0.02	60.5	123.8	14.8	7.0
Saint Vincent and the Grenadines	0.1	0.01	34.6	69.1	6.9	3.4
Saint Lucia	0.2	0.03	32.3	57.1	7.6	2.6
Suriname	0.3	0.06	32.8	48.5	10.0	1.9
Trinidad and Tobago	2.0	0.25	23.0	44.0	5.6	2.6

Source: IMF, WEO September 2003.

1/ Calculated on the basis of IMF data.

Figure 37

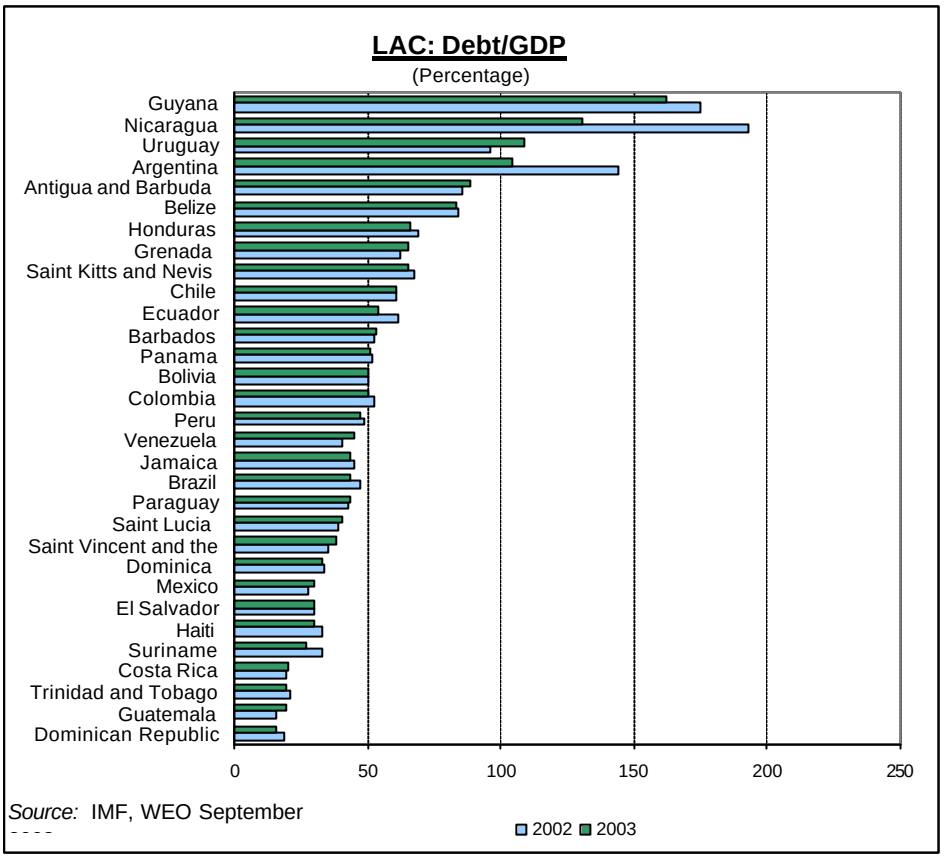


Figure 38

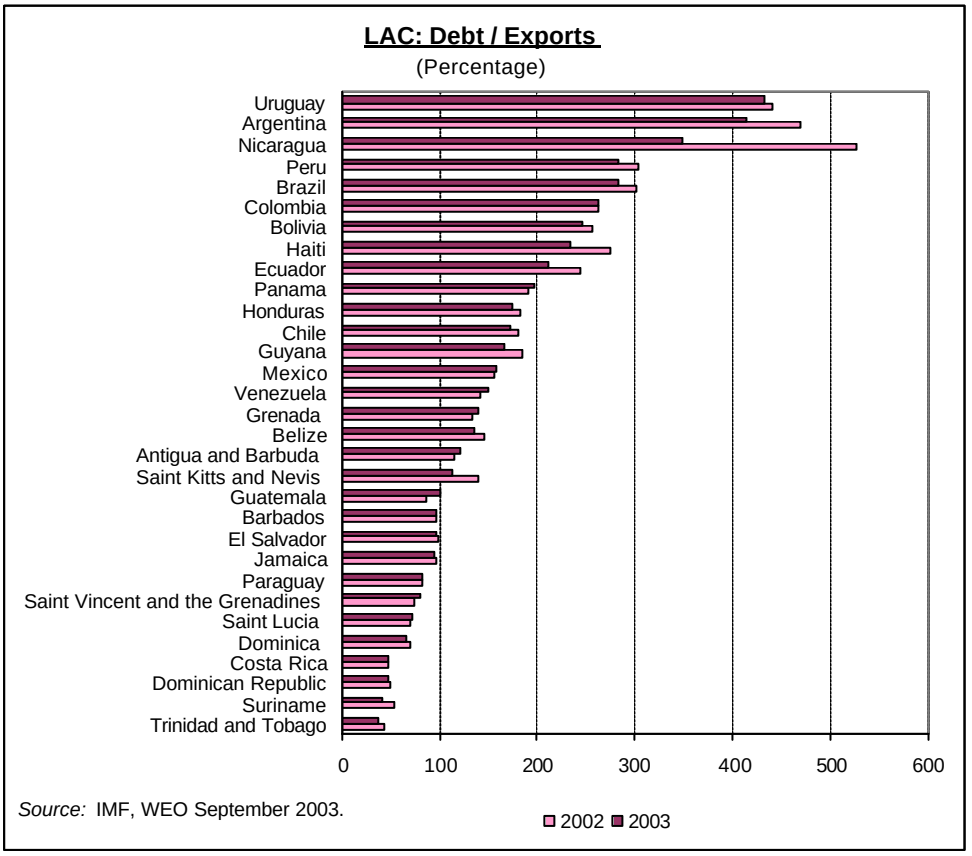


Figure 39

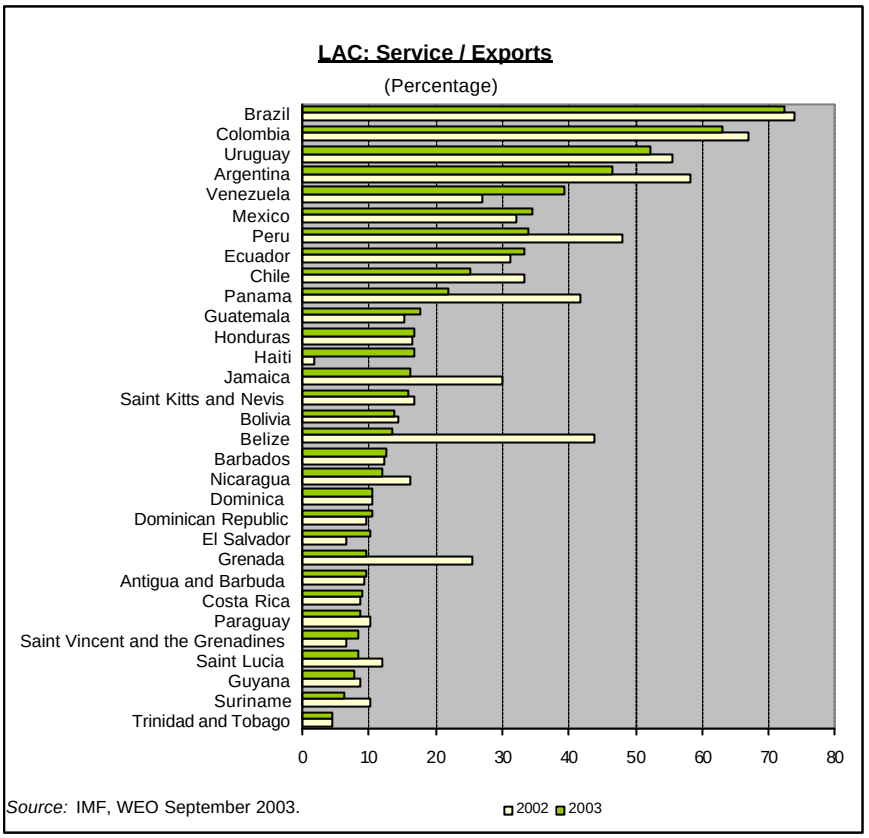
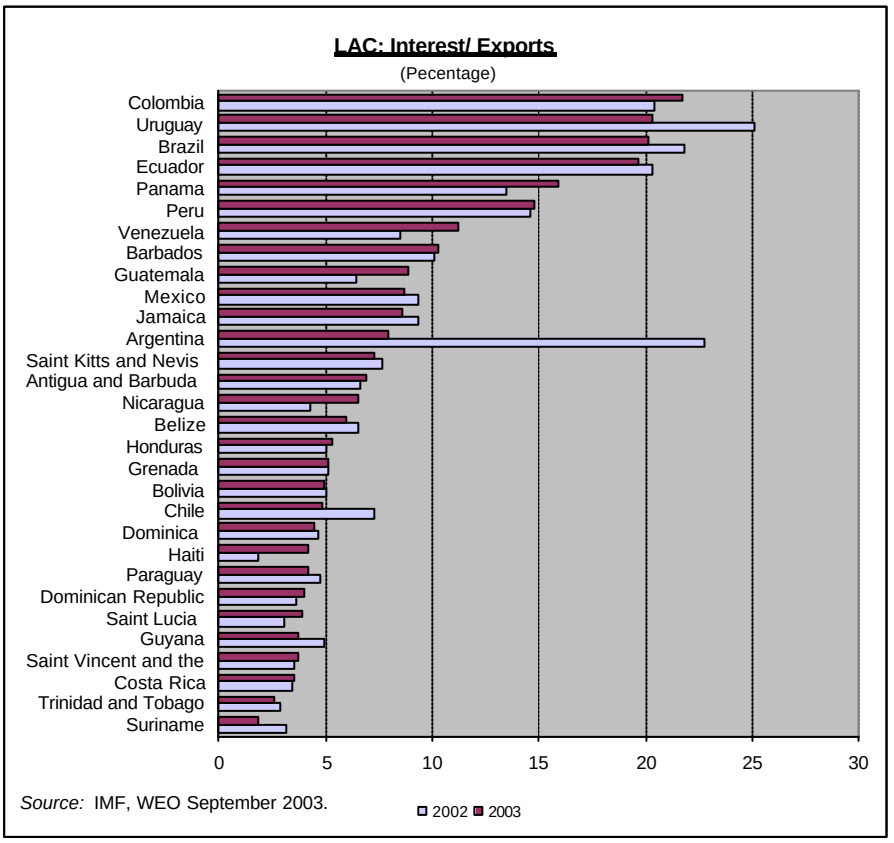


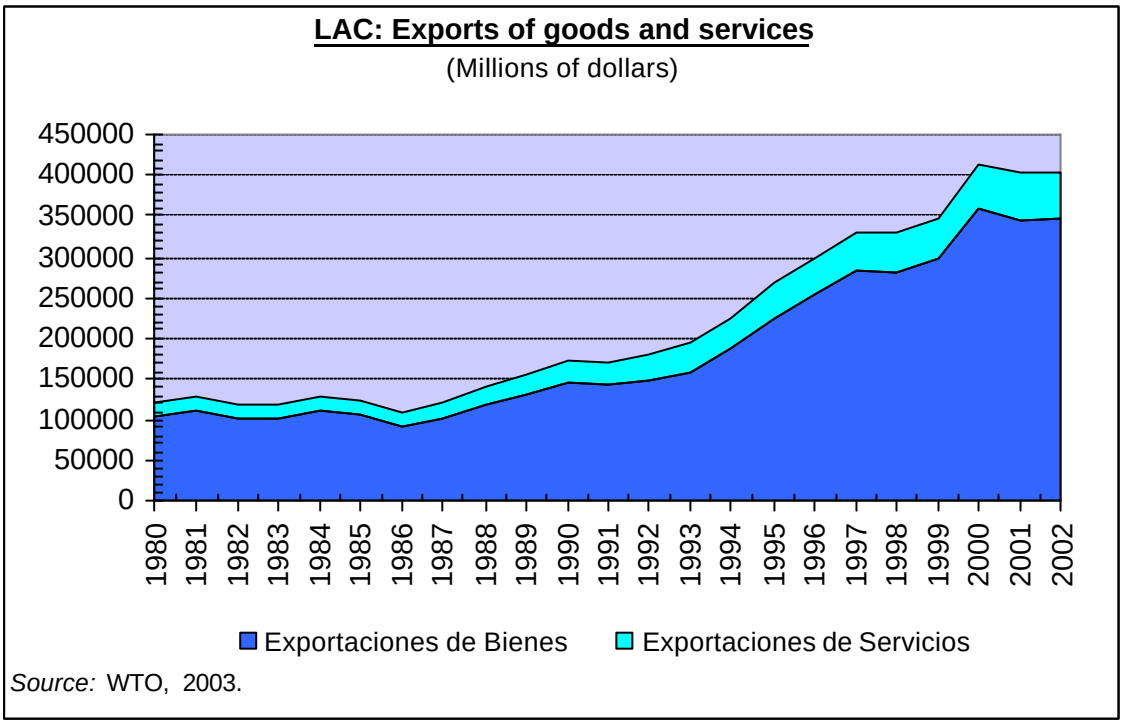
Figure 40



D. BALANCE OF PAYMENTS

Exports of goods and services from Latin America and the Caribbean posted a new record of US$ 438 billion in 2003,[13] i.e. nearly two and a half times the value exported in 1990. This level of exports signified a major recovery, since in 2001 and 2002 the amount exported had faltered in the wake of flagging international demand and economic difficulties in several countries of the region (see figure 41).

Figure 41



Over the last decade, within the instability and weakness of regional economic growth, exports have been a relatively more buoyant element, driven both by international demand during years of rapid growth in the world economy, and by changes in the region's international participation. Subregional integration processes in Latin America and the Caribbean have also played a role here, especially the close ties between Mexico (and to a lesser extent Central America) and the United States economy; and development of the intra-regional market, especially among the countries of MERCOSUR.

Between 1986 and 1987, export growth was quite dynamic (averaging 10.3% per year), as a result of efforts made by individual countries and favourable conditions in the world economy. When those conditions deteriorated, firstly with the Asian crisis and financial moratorium, and later as a result of the widespread recession of recent years, the rate dropped by half, and regional exports grew by just 5.0% per year between 1997 and 2003. In 1998 and 1999 the slower expansion was largely due to the fall in prices, while export volumes continued to grow more or less at the same pace as before. In recent

[13] This comprises goods exports amounting to US$ 371.9 billion (ECLAC 2003) and services exports estimated at US$ 66.1 billion.

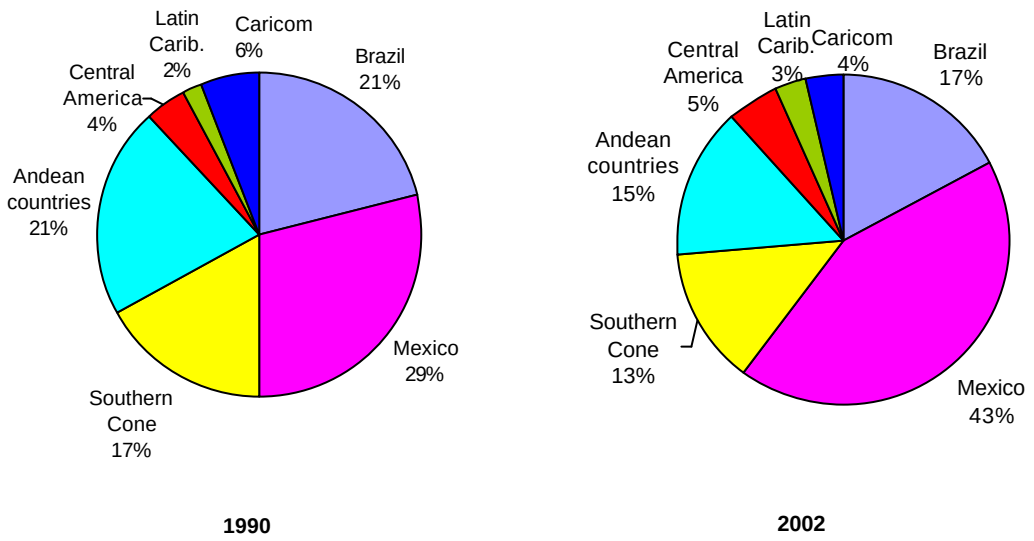
years, however, the lower export value has reflected both weaker prices and scant increase in the volume of goods shipped.

Export growth during the early years of the decade was quite widespread among Latin American and Caribbean countries and particularly buoyant in Central American countries and Mexico; in the latter case, the high rate of growth on a relatively broad export base at the start of the period produced a substantial increase in Mexico's share of the region's exports (and of its imports) (see figure 42).

Figure 42

LAC: Subregional shares of exports of goods and services

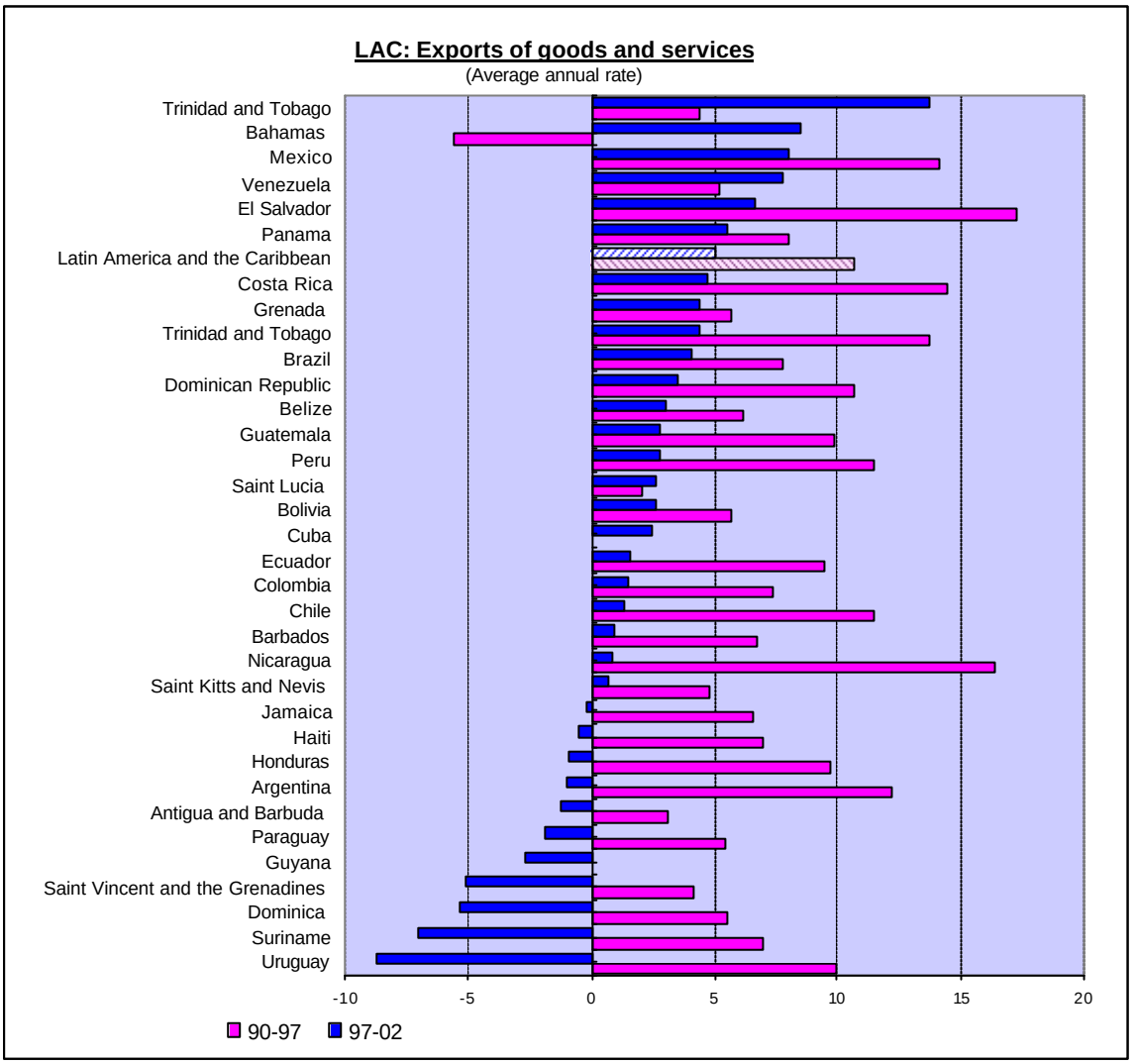
(Percentage)



Source: WTO, 2003.

In an eloquent illustration of the influence exerted by the international context on the region's countries, the slowing of export growth since 1997 has been more or less widespread throughout the region. In some cases, mainly among the southern cone countries and the Caribbean, the total amount exported actually declined (see figure 43).

Figure 43



The change in the international trade climate affected imports even more. These had grown rapidly following the debt crisis, reflecting the growing participation of Latin America and the Caribbean in the world economy; between 1990 and 1997 the annual average growth rate was 13%. From 1997 onward, however, import growth slowed down because of the impact of the changing international context and recession among the region's economies; but following recovery in 2000, they reached a new peak of US$ 450 billion. The slower economic growth of the ensuing years caused imports to fall back once more and in 2003 they are estimated at US$ 410 billion.[14] As in the case of exports, the reduction was widespread among the countries of the region. The southern cone countries experienced a very large reduction in absolute terms, reflecting the sharp contraction suffered by those economies.

[14] This figure is based on goods imports amounting to US$ 330.8 billion (ECLAC, 2003), and services imports estimated at US$ 79.2 billion.

Following deficits from 1992 to 2001 resulting from rapid import growth, the balance of trade in goods and services has reversed in recent years. In 2002, there was a surplus of US$ 10 billion, and in 2003 this widened to US$ 28 billion. Although economic recovery is bound to mean renewed import, exports are expected to expand faster, on the back of more competitive exchange rates and an increasingly widespread outward orientation to growth.

International price trends in 2003 generated more favourable conditions in the external market for Latin America and the Caribbean, with the prices of the region's export products rising by 15.9%. If oil is excluded, the increase is smaller, but nonetheless still significant at 5.9%. The steady deterioration in the terms of trade has been halted, having declined by 3.3% between 1998 and 2002 (14.9% for non-oil countries), and in 2003 the terms of trade improved by 1.3%.[15]

Recent months have seen a significant upturn in mineral prices, particularly copper and gold, which improve the terms of trade for several of the region's countries. The prices of soybeans, which have become a leading export product in several parts of Latin America, have continued to rise strongly. In addition, the prices of coffee and sugar are also trending upwards, albeit from historically very low levels.[16]

In the component breakdown of the balance of payments in 2003, the merchandise trade balance posted a surplus of US$ 41.1 billion, offsetting a deficit of US$ 13.5 billion in services trade. Private transfers, consisting essentially of remittances from workers abroad, amounted to US$ 33 billion as a regional total. Remittances are an important source of external financing in several countries, especially in Mexico and Central America.[17]

In contrast, large amounts of resources will continue to flow out of the region on the income account, consisting mainly of profits, amortization and interest payments. In 2003, this balance amounted to US$ 55 billion.

The net outcome of these accounts produces a surplus on the current account, which is unheard of in the region.[18]

The capital accounts of the balance of payments in Latin America and the Caribbean remained relatively neutral in 2003. Whereas financial accounts recorded an outflow of US$ 25.5 billion, the region received foreign direct investment amounting to US$ 29 billion, thus producing a surplus of US$ 3.5 billion. Nonetheless, FDI continues to dwindle rapidly. In 2003, capital inflows in this category were US$ 10 billion less than the amount received in 2002, and under half the annual amounts entering the region between 1997 and 2001 (see table 16).

[15] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*.

[16] Ibid.

[17] Ibid.

[18] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003.*

Table 16

LATIN AMERICA: BALANCE OF PAYMENTS (ANALYTICAL PRESENTATION)

(Millions of dollars)

	1980	1990	1997	2000	2001	2002	2003
I. BALANCE ON CURRENT ACCOUNT	-29882	-1563	-64944	-45344	-51319	-13753	5,969
Exports of goods f.o.b	91591	136995	286445	358330	343467	345910	371,929
Imports of goods f.o.b.	-92462	-105261	-298390	-353893	-345077	-321843	330,785
Merchandise trade balance	-871	31734	-11946	4437	-1611	24067	41,145
Services (credit)	15275	25032	40533	49266	47668	46127	-13,472
Services (debit)	-27136	-33228	-60377	-66185	-66968	-60292	n.a.
Balance of trade in goods and services	-12732	23538	-31790	-12483	-20911	9902	n.a.
Income (credit)	12384	11832	23334	27288	22997	16319	n.a.
Income (debit)	-31280	-46019	-71617	-80516	-77579	-67061	n.a.
Balance of income account	-18896	-34187	-48283	-53228	-54582	-50742	-54,811
Balance of current transfers	1745	9085	15129	20367	24174	27086	33,108
II. BALANCE ON CAPITAL ACCOUNT a)	22	225	976	1009	734	1086	n.a.
III. BALANCE ON FINANCIAL ACCOUNT a)	30936	-4797	86651	57398	43077	-6735	n.a.
Net foreign direct investment	5745	6724	56969	67792	68654	38999	n.a.
Total financial assets	-6813	-17328	-10600	-11105	-26866	-6750	n.a.
Total financial liabilities	32005	5808	40283	711	1290	-38984	n.a.
IV. ERRORS AND OMISSIONS	-1728	-397	-3983	1637	-10893	-8269	n.a.
V. OVERALL BALANCE	-652	-6532	18700	14699	-18401	-27670	9,460
VI. RESERVES AND RELATED ITEMS	652	6532	-18700	-14699	18401	27670	n.a.

Source: ECLAC, on the basis of figures provided by the IMF, and since 1996 by national institutions.

Caribbean countries are not included because of a lack of information

E. INFLATION

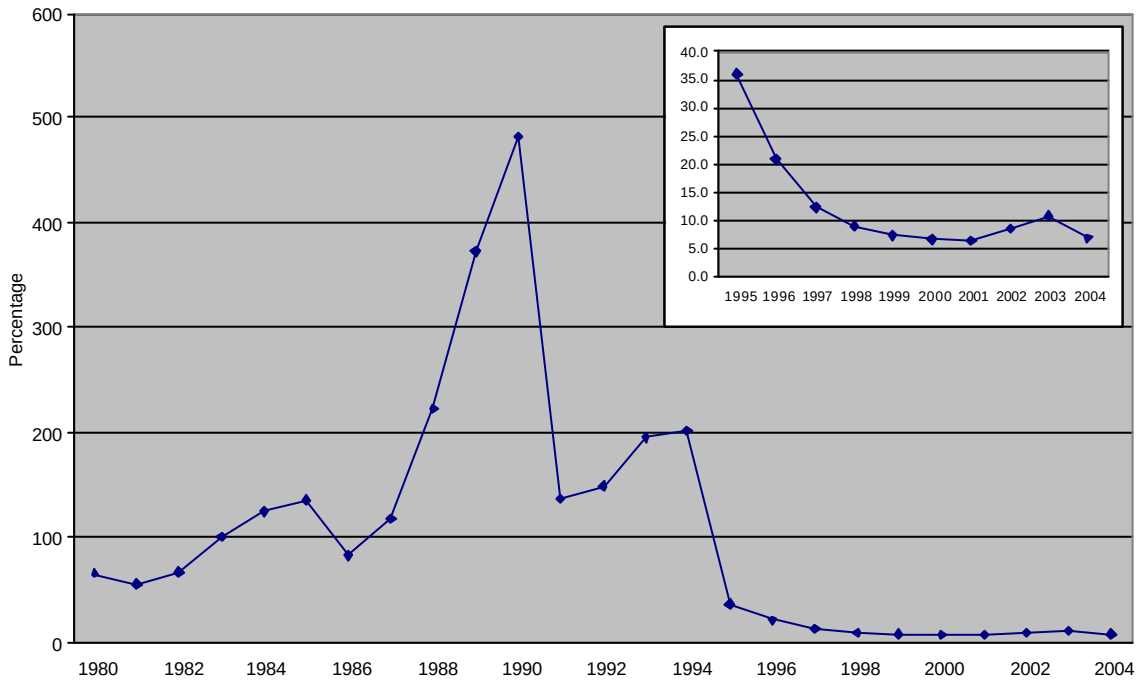
In contrast to the instability and vulnerability displayed by the external balance, Latin America and the Caribbean has made consistent progress toward domestic price equilibrium. The vast majority of countries have kept the growth of the general price level under control, even in recent years when exchange-rate vicissitudes generated powerful inflationary pressures in several cases.

Starting in 1995, the first hyperinflation-free year throughout Latin America, the average inflation index for the region fell continuously for seven years until 2001 (from 36.1% to 6.4%). The progress achieved on the inflation front was extremely widespread: in 2001, in a clear rejection of the region's historical inflationary tradition, 28 out of the 33 countries posted inflation in single digits[19] (see figure 44).

Figure 44

LAC: Inflation rate

(1980-2004)



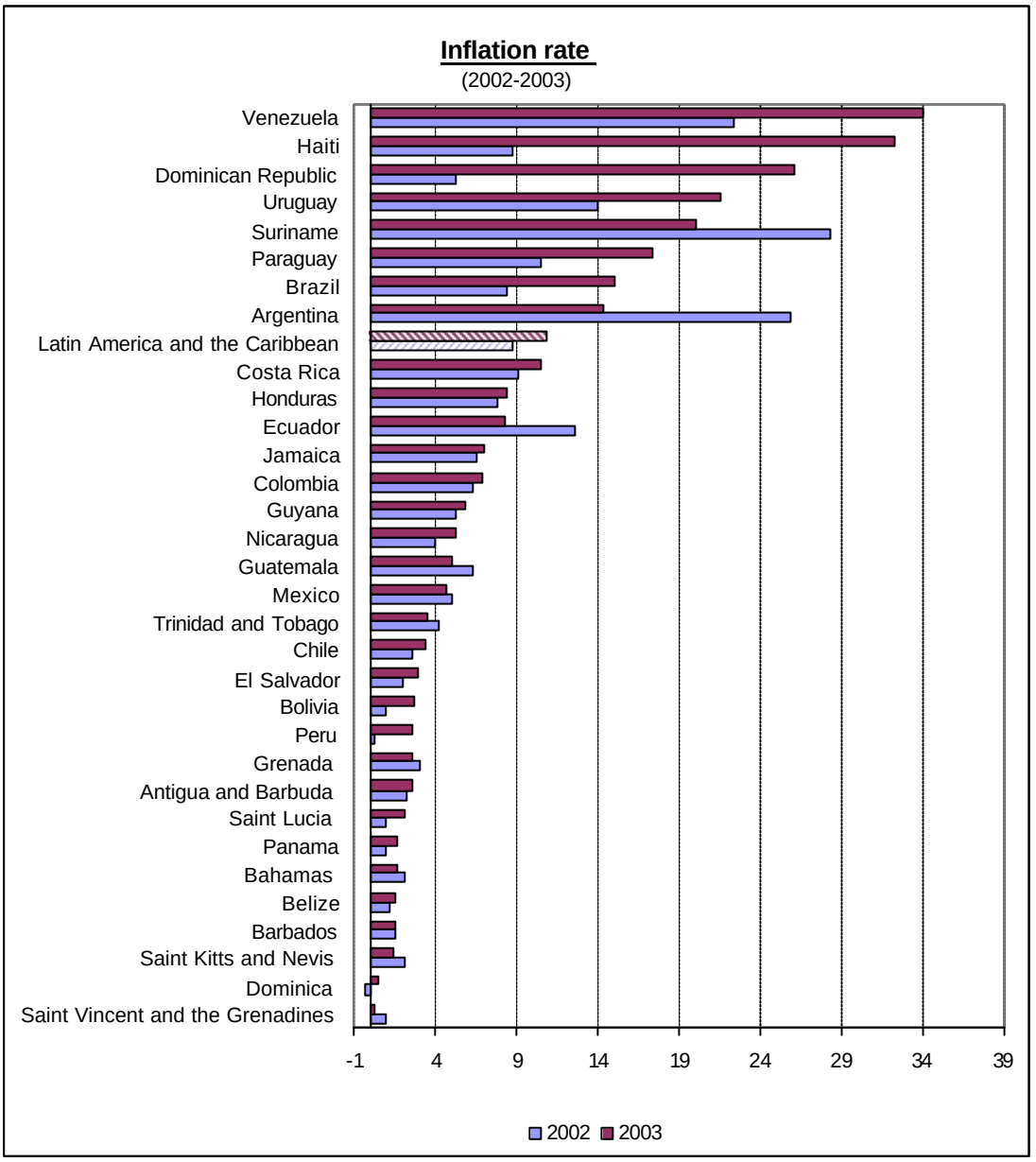
Source: IMF, WEO September, 2003.

In 2002 and 2003 the rate of increase in the general level of prices gathered pace slightly, as a result of foreign-exchange market disturbances that affected the southern cone countries particularly, and because of the expansionary policies pursued by a number of countries to alleviate the recessionary impact of the troublesome international situation. Nonetheless, private expenditure was generally depressed, which eased upward pressure on prices from the demand side. Numerous countries in the region have recognized the

[19] In that year, only Costa Rica, Ecuador, Haiti and Venezuela recorded price rises above 10%. No information is available for Cuba.

need to control inflation as a policy priority, and in several cases meeting annual targets has been made a Central Bank responsibility. Starting in 2004, the inflation index is expected to fall again in most countries and also as a regional average[20] (see figure 45).

Figure 45



F. INCOME DISTRIBUTION

In terms of income distribution, Latin America and the Caribbean is the most unequal region in the world. As much as 40% of total income is received by the wealthiest 10% of the population, and 25% is received by the top 5% alone. These indicators represent the

[20] ECLAC estimates show that the trend toward price stability had already been regained in 2003, with the regional inflation index for that year predicted to be below the 2002 figure.

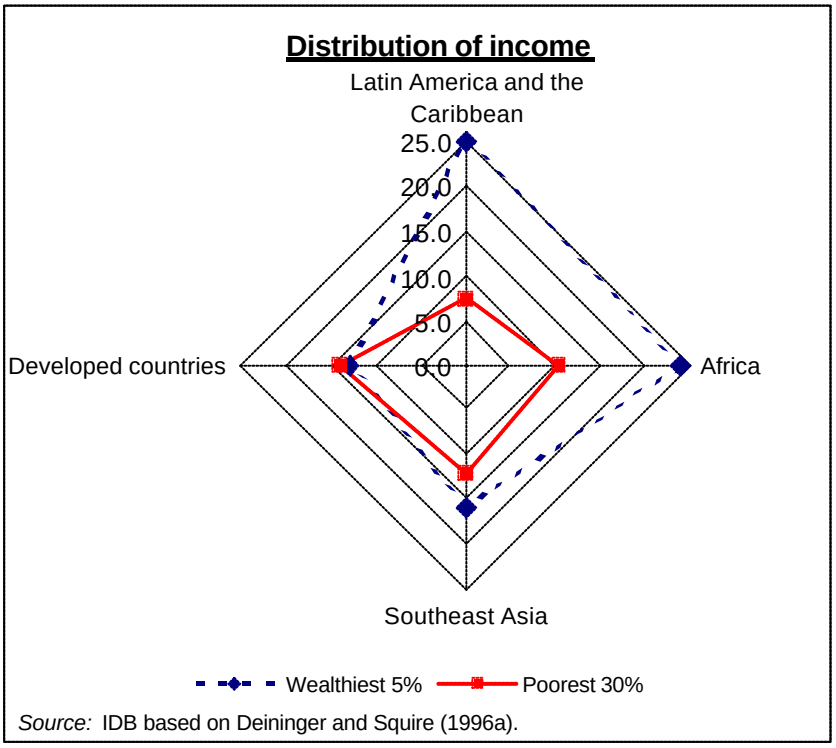
highest concentration of income among developing regions, and are almost double those prevailing in developed countries where on average the wealthiest 5% of the population receive 13% of total income.[21] The flipside of this is that the poorest 30% of the population in Latin America and the Caribbean receive just 7.5% of total income – less than in any other region in the world, and just half the figure in developed countries (14%). As a result, Latin America displays the largest gap between rich and poor anywhere in the world (see table 17 and figure 46).

Table 17

Region	Income received by Wealthiest 5%	Poorest 30%
	% of total income	
Latin America and the Cai	25.0	7.5
Africa	24.0	10.2
Southeast Asia	16.0	12.0
Developed countries	13.0	14.0

Source : IDB calculations based on Deininger and Squire (1996a).
IDB 1998, "*América Latina frente a la Desigualdad*".

Figure 46



Source: IDB based on Deininger and Squire (1996a).

The degree of economic polarization in the region can also be expressed through the Gini coefficient.[22] Among the regions for which information is available, Latin America and

[21] According to IDB calculations, based on Deininger and Squire (1996a).

[22] The most widely used indicator for measuring income concentration is the Gini coefficient, which synthesizes information on the income shares of all population groups into a statistic that varies from zero to one. A perfectly equal distribution would produce an coefficient of zero, while the value 1 indicates maximum concentration. An increase in the coefficient thus means greater income concentration. In reality, countries with the best income

the Caribbean have the highest coefficient at above 50, compared to Asia where it is 40 and the countries of the OECD and Eastern Europe which have a Gini coefficient close to 30 (see table 18).

Table 18
Gini coefficient by region

Region	1970s	1980s	1990s	Total average
Latin America and the Caribbean	48.8	50.8	52.2	50.5
Asia	40.2	40.4	41.2	40.6
OECD	32.3	32.5	34.2	33
Eastern Europe	28.3	29.3	32.8	30.1
Variation		70-80s	80-90s	70-90s
Latin America and the Caribbean		2.4	1.3	3.7
Asia		0.2	0.8	1.1
OECD		0.2	1.7	1.9
Eastern Europe		1.0	3.5	4.5
Differences w.r.t. LAC in Gini percentage points				
Latin America and the Caribbean				
Asia	8.3	10.4	10.9	9.9
OECD	16.1	18.3	18	17.5
Eastern Europe	20.2	21.6	19.4	20.4

Source: Based on data provided by WIDER 2000.

Moreover, economic concentration in Latin America and the Caribbean is not diminishing. Over the last three decades, the coefficient has increased by more than in all other regions apart from Eastern Europe, following the change of economic and social system in those countries. Income concentration in Latin America and the Caribbean thus persists or is even growing compared to other regions (see again table 18).

Within the general economic polarization of the region, there are different situations both between countries and in the population sectors where polarization is accentuated (the most wealthy or the most poor).

From the standpoint of differences between countries in the region, the greatest inequality is seen in Latin America, while income distribution in the Caribbean is more moderate.

In terms of the nature of the concentration, in some cases polarization is due to the fact that the highest income group receives a particularly large proportion of total income. This can be seen in the income share received by the last decile, i.e. the wealthiest 10% of the population. In other cases, polarization reflects the negligible proportion received by a large contingent of poor; this can be seen in the income share received by the first four deciles (i.e. the poorest 40%) of the population.

The greatest income concentration in the last decile is seen in Brazil (47% of total income), followed by Nicaragua, Chile and Guatemala. Between 1990 and 1999, the concentration of income among the wealthiest 10% increased in most countries, declining

distribution display indices ranging from 0.25 to 0.30; Latin America has a Gini coefficient of about 0.5 or 0.6. For ease of expression, the coefficient is sometimes multiplied by 100.

only in Honduras, Uruguay and, to a lesser degree, in Bolivia and Colombia. The country displaying the least concentration of wealth in the region is Uruguay.

The smallest income share received by the poorest 40% of the population corresponds to Bolivia (9.2%), followed by Brazil and Nicaragua (10%). Between 1990 and 1999, the income share of the poorest 40% rose slightly in half of the countries, while shrinking still further in the other half (see table 19).

Table 19

LA: Household income distribution a/, nationwide total, 1990-2000

(Percentages)

Country	Total income share of			
	1990		1999	
	Poorest 40%	Wealthiest 10%	Poorest 40%	Wealthiest 10%
Brazil	9.5	43.9	10.1	47.1
Mexico	15.8 c	36.6	14.6 i	36.4
Southern Cone				
Argentina d/	14.9	34.8	15.4	37.0
Chile	13.2	40.7	13.8 i	40.3
Paraguay	18.6	28.9	13.1	36.2
Uruguay f/	20.1	31.2	21.6	27.0
Andean countries				
Bolivia	12.1 c	38.2	9.2	37.2
Colombia	10 h	41.8	12.3	40.1
Ecuador f/	17.1	30.5	14.1	36.6
Peru			13.4	36.5
Venezuela	16.7	28.7	14.6	31.4
Central America				
Costa Rica	16.7	25.6	15.3	29.4
El Salvador			13.8	32.1
Guatemala	11.8 c	40.6	12.8 j	40.3
Honduras	10.1	43.1	11.8	36.5
Nicaragua	10.4 g	38.4	10.4 j	40.5
Panama	12.5 e	35.9	12.9	37.1
Latin Caribbean				
Dominican Republic			14.5 k	36

Source: ECLAC, *Social Panorama, 2002* , based on tabulations made from household surveys conducted in the respective countries.

For 1990 :

a/ Households nationwide ranked by per-capita income.

b/ Average monthly household income, expressed as multiples of the per-capita poverty line.

c/ Corresponds to 1989.

d/ Greater Buenos Aires.

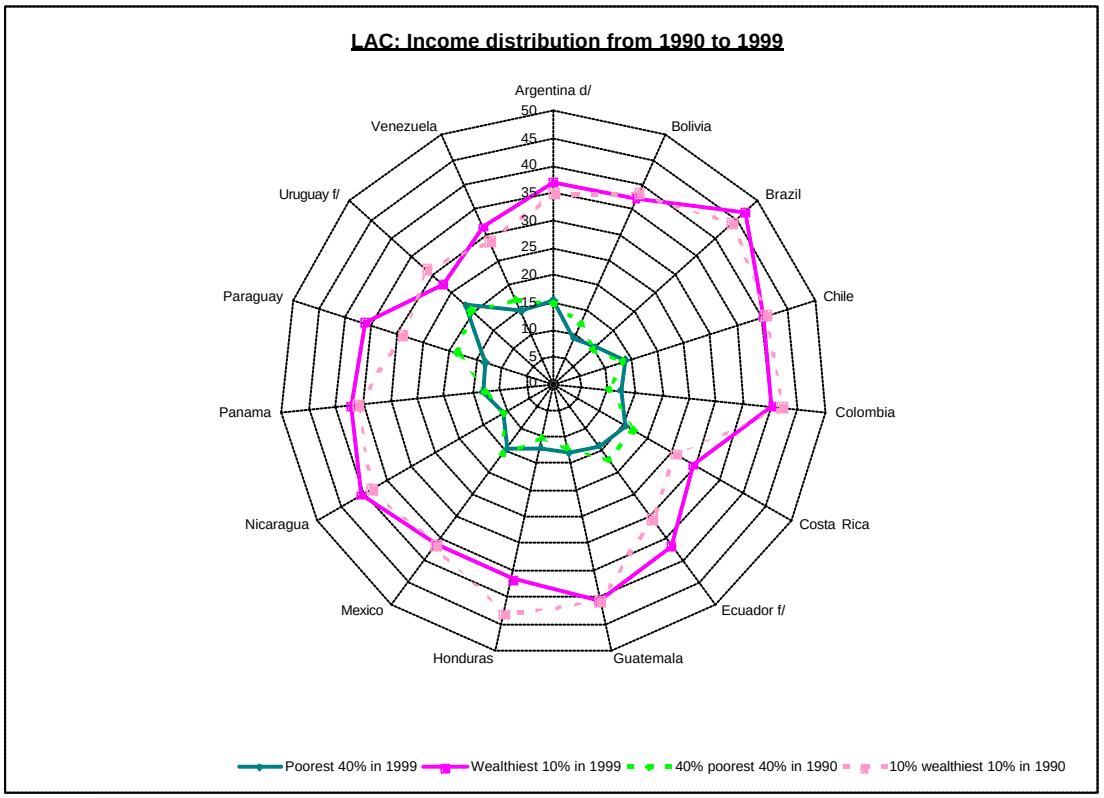
e/ Corresponds to 1991.

f/ Urban total.

g/ Corresponds to 1993. h/ Corresponds to 1994. i/ Corresponds to 2000. j/ Corresponds to 1989. k/ Corresponds to 1987.

When the two levels of income concentration combine, the result is a wide income gap between economically privileged groups and the poor population. In the region, Brazil displays the worst distribution, with highly concentrated wealth at the top compounded by massive wide-ranging poverty. Uruguay has the least unequal distribution in the region; albeit still highly concentrated compared to the income distribution prevailing in developed countries.

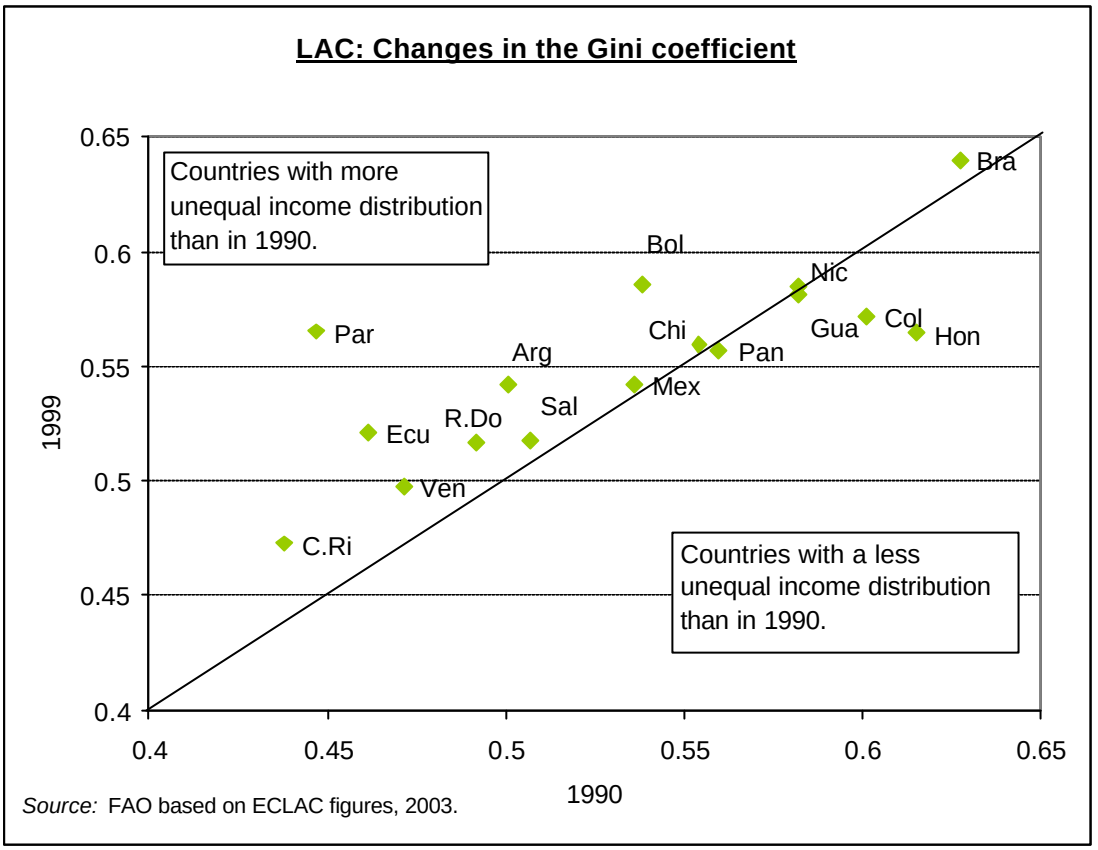
Figure 47



In recent decades, the historically high concentration of income in the region has tended to worsen as result of inflationary processes; moreover, during austerity programmes aimed at restoring macroeconomic equilibria, the sacrifices have been borne more than proportionately by the poor, thereby aggravating polarization still further. In contrast, during periods of economic recovery, the benefits have tended to be concentrated among the higher-income population groups, which find more effective ways of participating in the new economic dynamic. Inequality in the distribution of income represents a major rigidity in Latin America, and in some countries it continues to worsen.

Between 1990 and 1999, the concentration of income, measured by the Gini coefficient, only declined in Honduras, Colombia, Guatemala and Panama. In the other 12 countries for which there is information, polarization accentuated further (see figure 48).

Figure 48



Source: FAO based on ECLAC figures, 2003.

Improvements in the income distribution are closely linked to conditions of employment. Labour incomes, consisting mainly of wages and salaries, is the major component of family income in Latin America and the Caribbean, accounting for over 80% of the total in most countries.[23] Another important source, transfers, consists largely of retirement pensions, which are also related to employment conditions. Generally speaking, the share of income earned from property is relatively small, although it may be highly concentrated. Among incomes earned from the labour market, over half come from wages. Consequently, although public transfer policies may be important for poverty relief, the chances of consistently improving the income distribution depend on job creation and improvements in productivity. Education and labour training, together with conditions for expanding productive investment, represent an essential pillar for improving equity.

On the other hand, the labour market displays significant peculiarities and glaring asymmetries, which makes it essential for the economic model to support growth accompanied by greater demand for labour. Labour markets need flexibility to avoid rigidities that inhibit employment growth; but this should not merely imply

[23] This includes incomes earned in the "employer" category, which are higher, but for a small segment of the population.

precariousness, and needs to be complemented with unemployment protection and job security policies.

(i) Urban and rural income

Another dimension of inequity in the income distribution of Latin America and the Caribbean is its urban-rural polarity. Differences between the countryside and the city remain a basic source of social inequality and an expression of economic polarization in the countries of the region. To a large extent, the rural domain acts as a safety valve by absorbing unemployment and underemployment, and providing means of subsistence to a significant fraction of the population that is excluded from the main dynamic of the current development model.

In all countries of the region, income per capita is higher in the cities than in rural areas. Although the differences are very considerable in monetary terms, their effect is reduced because the countryside offers viable survival strategies that combine productive activities with the household economy and support of community life, thereby making it possible to achieve minimal living standards on less income.

In addition, the particular features of each social medium generate differences in the structure and composition of consumption, which generally also make it possible to obtain the essential conditions of life at lower monetary cost in the rural domain.

Nonetheless, even when incomes in the cities and in the countryside are weighted to make them comparable, rural incomes are still substantially lower. In all countries, the urban poverty line is significantly higher than its rural counterpart; nonetheless, average urban income is further above the corresponding poverty threshold than the equivalent rural figure. In other words, in most countries, the rural population generally lives closer to poverty.

Table 20

LA: Average income of the employed economically active population

By labour market participation, urban and rural areas, 1990-2000
(Expressed as multiples of the respective per-capita poverty lines)

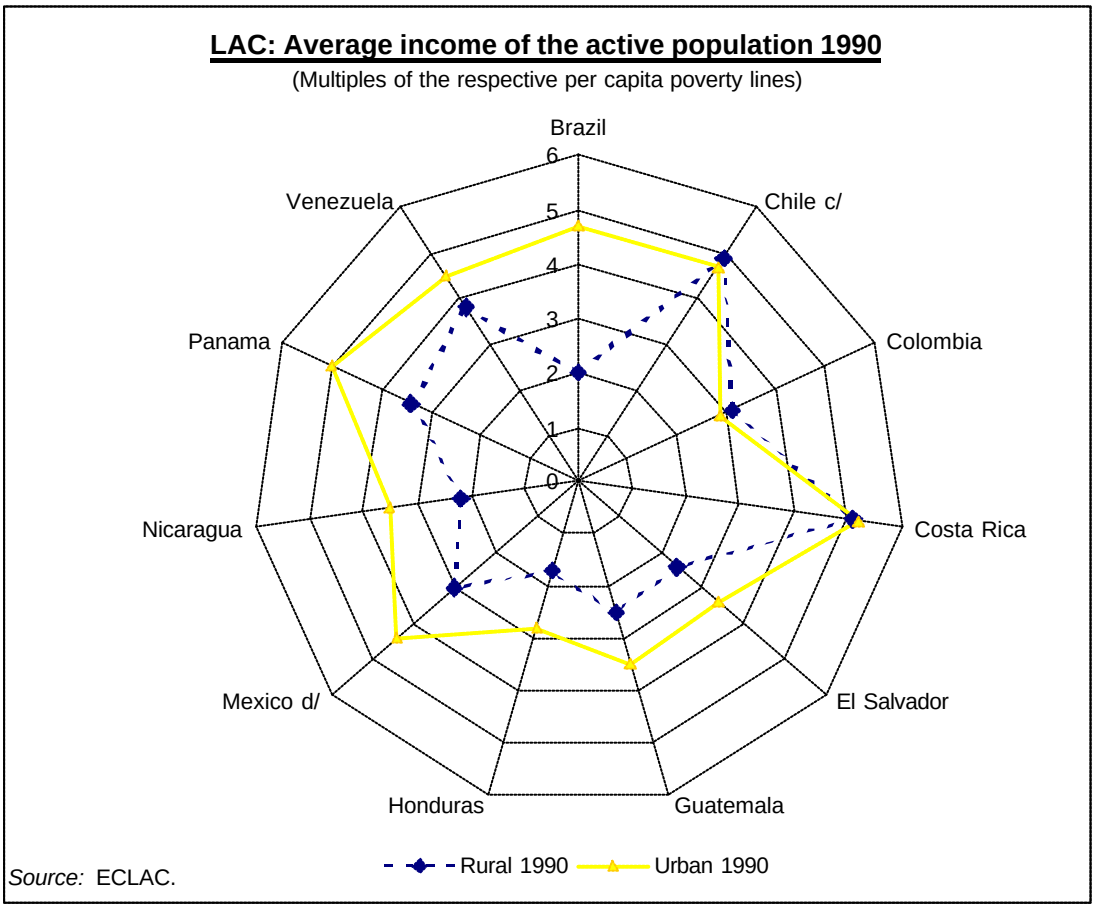
Country	Rural 1990	Rural 1999	Urban 1990	Urban 1999
Brazil	2.0	1.8	4.7	4.4
Chile	4.9	5.3	4.7	7.2
Colombia	3.1	2.9	2.9	3.3
Costa Rica	5.1	6.3	5.2	6.0
El Salvador	2.4	3.4	3.4	4.2
Guatemala	2.5	2.2	3.5	3.0
Honduras	1.7	1.8	2.8	2.0
Mexico	3.0	3.2	4.4	4.3
Nicaragua	2.2	2.1	3.5	3.1
Panama	3.4	4.2	5.0	5.8
Venezuela	3.8	n.a.	4.5	3.5
Ecuador	n.a.	n.a.	2.8	2.9
Bolivia	n.a.	0.8	4.2	3.4
Uruguay	n.a.	n.a.	4.3	5.4
Paraguay	n.a.	2.2	3.4	3.3
Argentina (Greater Buenos Aires)	n.a.	n.a.	6.4	6.4
Paraguay (Asunción)	n.a.	n.a.	n.a.	3.6
Peru	n.a.	1.4	n.a.	3.2
Dominican Republic	n.a.	4.3	n.a.	4.4
Paraguay (Urban)	n.a.	n.a.	n.a.	3.3

Source: Based on ECLAC, *Social Panorama* .

The data were interpolated for analytical purposes.

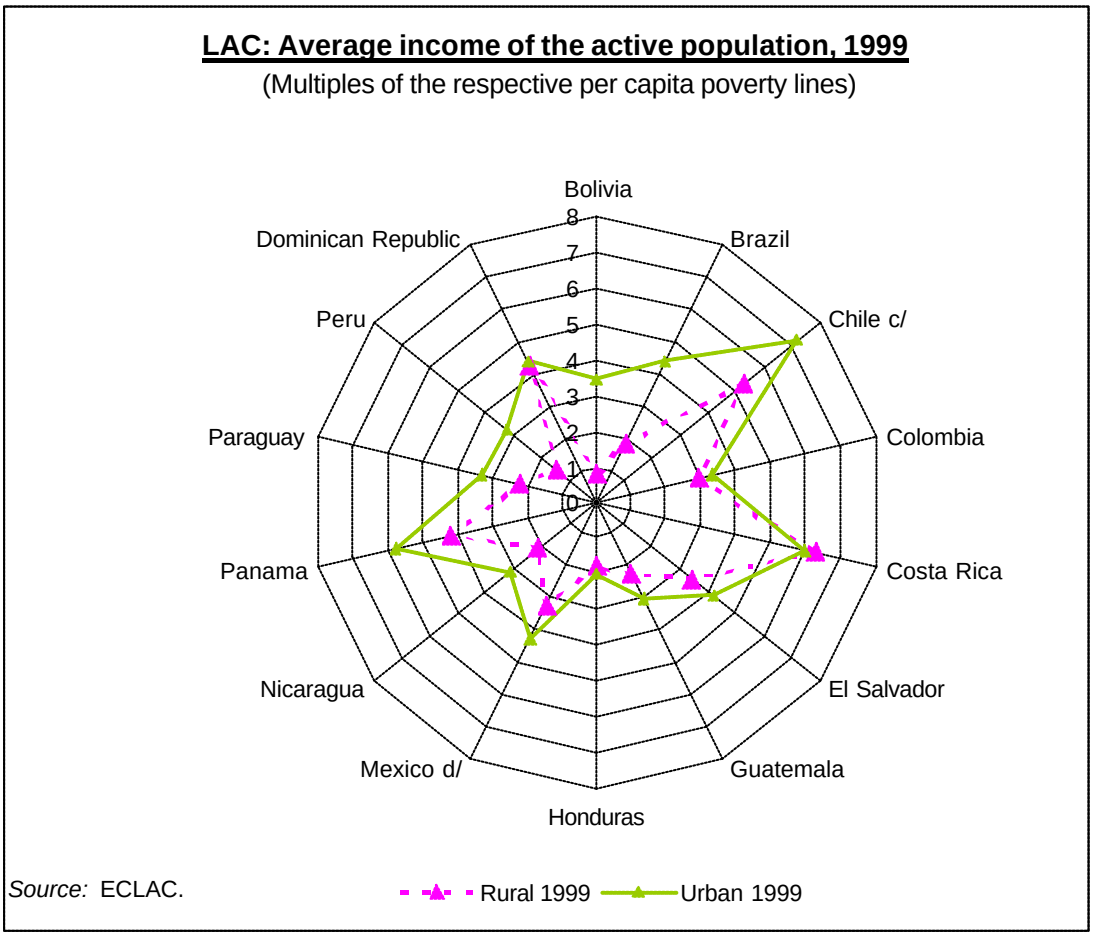
In 1990, only in Colombia, Costa Rica and Chile was average income among the rural population, measured as a multiple of the poverty line, similar to that received by the urban population in relation to its poverty line (in the first case because the average in the cities was quite close to the poverty threshold). In all other countries, average income in the cities is further above the corresponding poverty threshold. In Brazil and Honduras average income in the countryside was just twice its poverty-line level (see figure 49).

Figure 49



In 1999, per capita incomes in the rural and urban domains were equally distant from their respective poverty lines in Costa Rica, Dominican Republic and Honduras, although in the latter country at the level of just twice the poverty threshold. In the other countries, average urban income is further above the poverty line than its rural counterpart. In Colombia alone the gap in favour of urban income is more or less equivalent to one poverty line. The largest difference is seen in Brazil, where average income per capita in the cities is 4.5 times the poverty line, whereas in the countryside it is less than double the respective threshold. Nonetheless, as will be seen below, this situation needs to be weighted, to take account of the acute concentration of urban income in Brazil. In Bolivia, average income in the countryside is below the poverty-line level, in other words most of the rural population is poor (see figure 50).

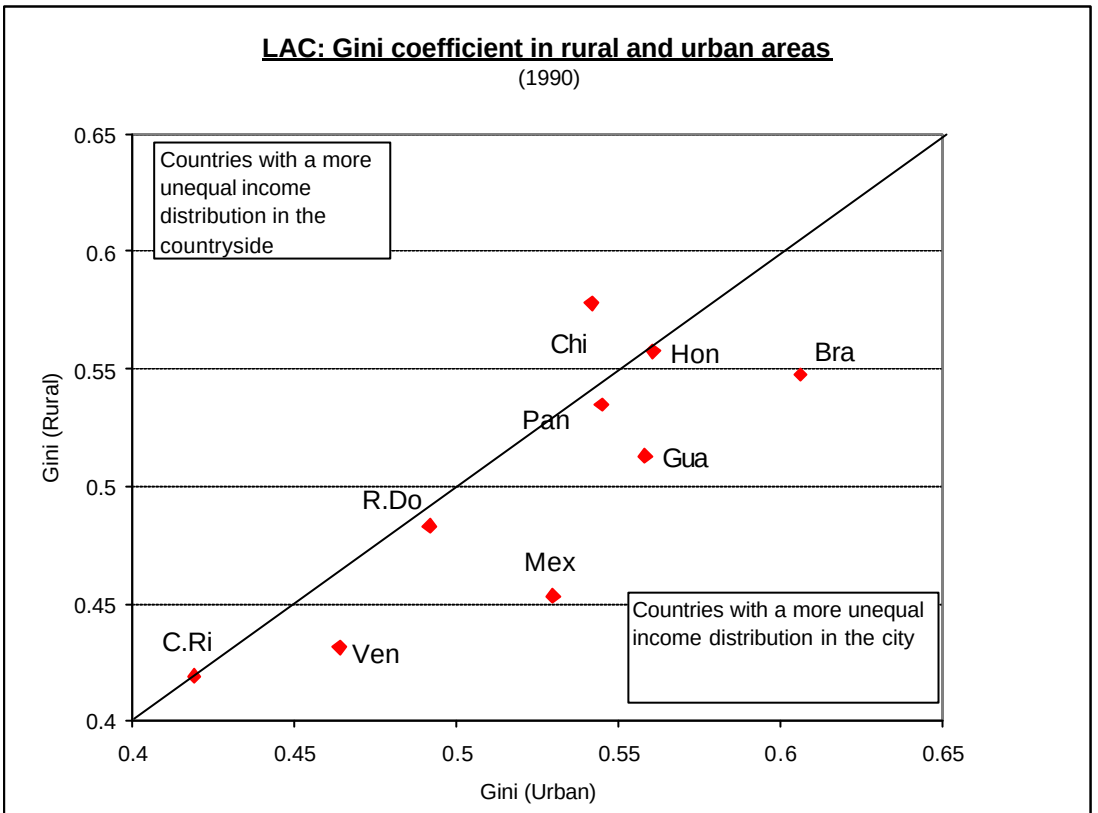
Figure 50



(ii) Distribution of rural and urban income

In most countries inequality is greater in the city than in the countryside, Chile being the sole exception in 1990. In that year, Chile had the highest concentration of rural income among the nine countries for which information was available. Costa Rica displayed the most equal income distribution in both rural and urban areas (see figure 51).

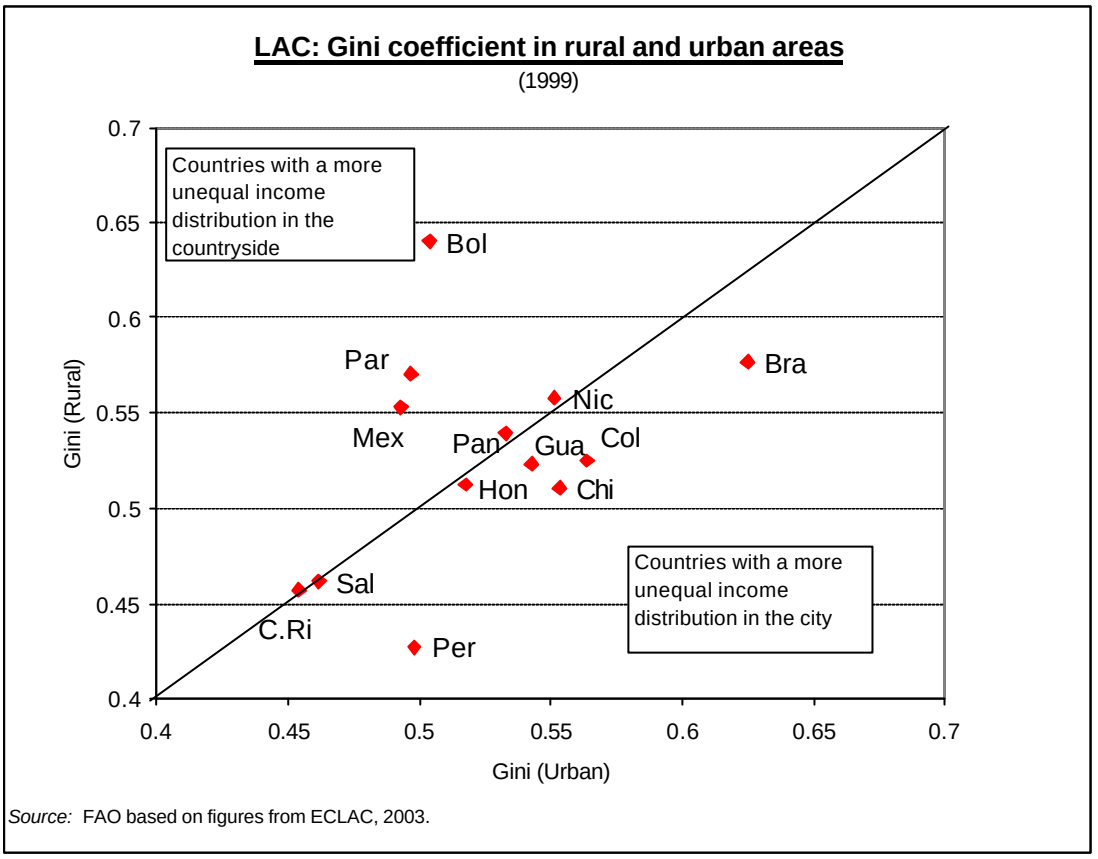
Figure 51



Source: FAO based on figures from ECLAC, 2003.

By 1999, while there had been significant redistributive progress in the Chilean countryside, rural income concentration in other countries had worsened, particularly in Mexico, Paraguay, and above all in Bolivia.

Figure 52



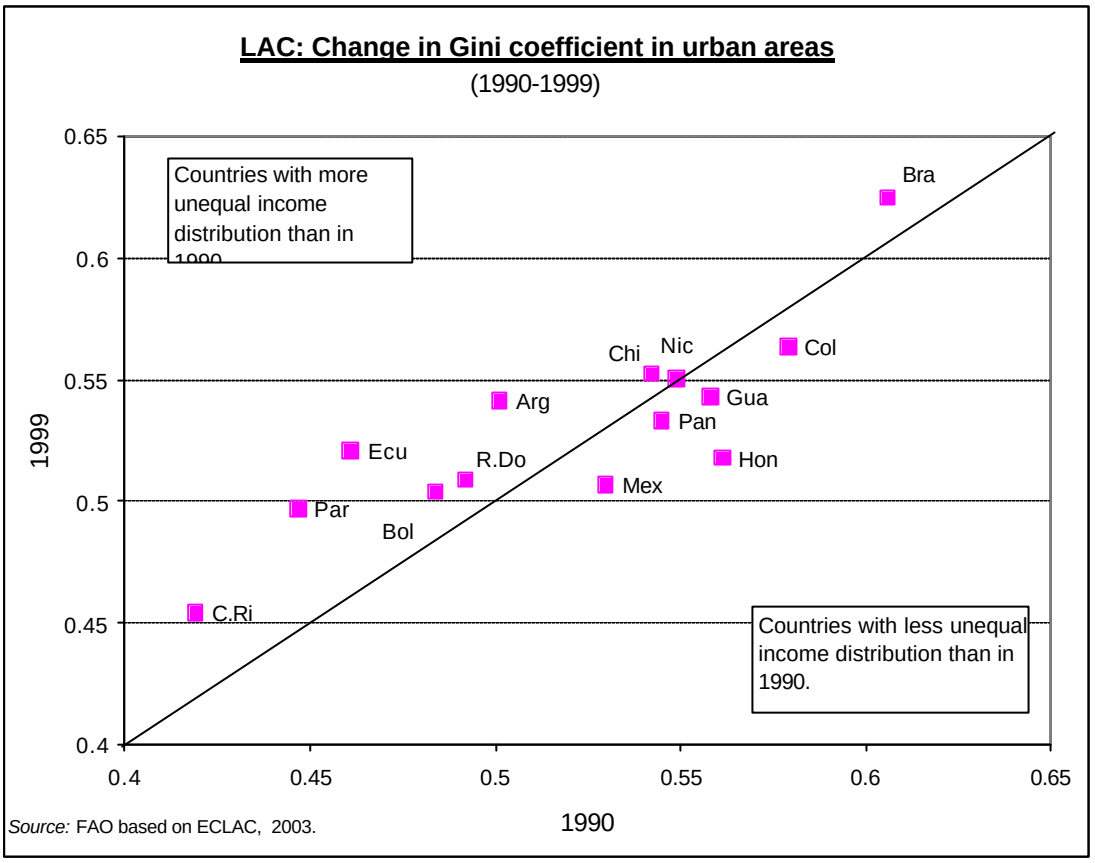
Source: FAO based on figures from ECLAC, 2003.

Rural income in Brazil is also highly concentrated, but the concentration in urban areas is greater still.

Although this aggregate analysis does not bring out the complexity of rural development and equity problems in each country, the situation outlined may not be unrelated to the problems of governance and social effervescence that have broken out in some of these countries in support of rural demands (see figure 52).

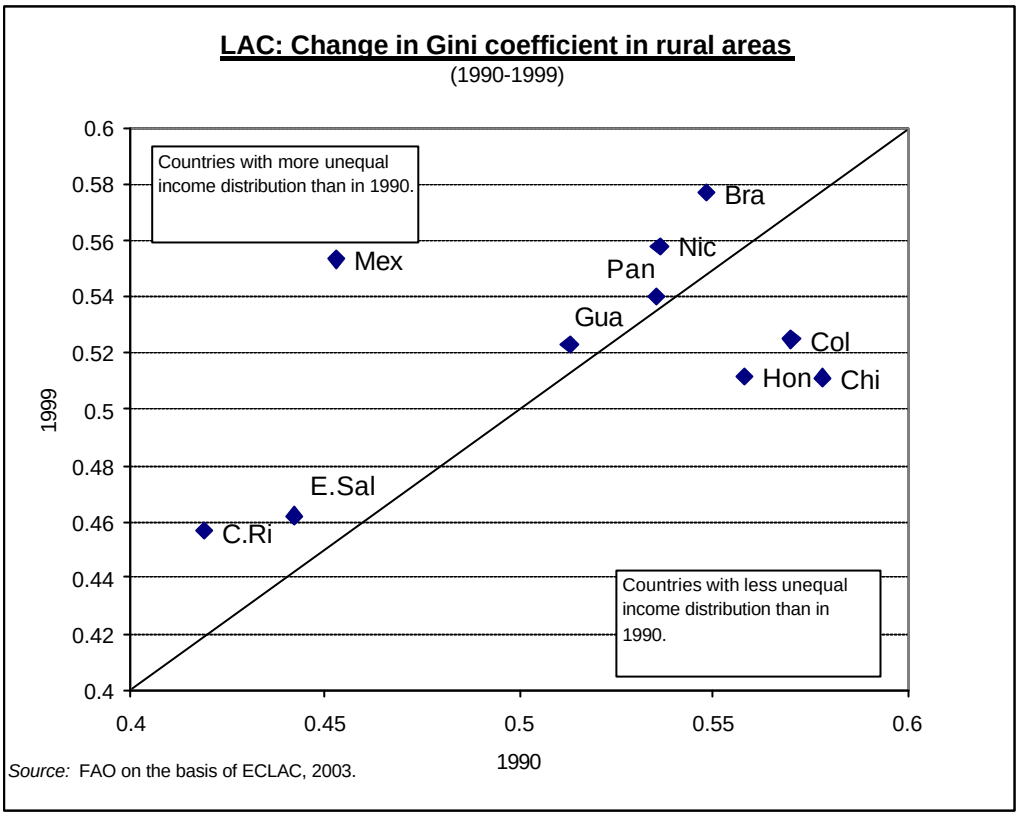
Over the last decade, urban income concentration increased in most of the region's countries for which information is available, diminishing only in Honduras, Mexico, Colombia, Guatemala and Panama (see figure 53).

Figure 53



In the case of rural income, only Chile, Honduras and Colombia made any progress toward greater distributional equity; while rural income concentration worsened in the other countries. The greatest increase in the concentration of rural income occurred in Mexico. Bolivia and Paraguay did not have information available for the start of the decade (see figure 54).

Figure 54



Brazil displays the greatest concentration in both urban and rural income, and polarization worsened during the decade in each case. Among countries for which there was information, Costa Rica has the least unequal income distribution in both social domains.

Income concentration in Latin America is more acute than in other regions of the developing world, and in comparison to industrialized countries. Far from diminishing, the income distribution has continued to become more polarized over the last few decades in most of the region's countries.

Following the "Changing production patterns with social equity" proposal, developed by ECLAC since 1990, numerous in-depth studies have been made of the relationship between growth and distribution. These have shown that far from being exclusive alternatives or competing paths, growth and equity are mutually empowering. The huge degree of income concentration in Latin America is not just a problem of ethics or morals, politics or governance, it also acts as a major constraint on the region's ability to regain rapid and sustained economic growth.

The Latin American development model needs to include elements which, while consistent with the demands of the international context and functional to the development of the market economy, reduce exclusion and facilitate progress toward equal opportunities. This condition is essential for achieving growth with equity and moving the income distribution toward the more equitable patterns that prevail in developed countries.

G. POVERTY[24]

The number of poor people[25] in Latin America and the Caribbean is growing continuously. In 1960, there were 110 million, but since then the number has risen steadily to a total of 225 million people today (the only year in which the number of poor people fell was 2000; but in 2001 the number rose again to surpass the 1999 figure).

In relation to total population, the number of people living in poverty declined steadily from 51% to 40% between 1960 and 1980. During the "lost decade" of the external debt crisis, the percentage of poor people rose again to reach 48% by 1990. During following decade, the proportion of the population living in poverty resumed its downward trend, dropping to 42% by 2000; but in the first few years of the new millennium, in the wake of the recession that began in 2001, the proportion has risen again and currently stands at 44% (see table 21).

Table 21

LAC: Scale of poverty and indigence a/

(1980-2001)

Year	Poor population b/		Indigent population	
	Total		Total	
	(Thousand people)	(Percentage)	(Thousand people)	(Percentage)
1970	112,800	42.0	60,000	22.0
1980	135,900	40.5	62,400	18.6
1986	170,200	43.0	81,400	21.0
1990	200,200	48.3	93,400	22.5
1994	201,500	45.7	91,600	20.8
1997	203,800	43.5	88,800	19.0
1999	211,400	43.8	89,400	18.5
2000	206,700	42.1	87,500	17.9
2001	212,000	42.5	91,000	18.2
2002 c	220,000	43.4	95,000	18.8
2003	225,000	43.9	100,000	19.4

Source : FAO/RLC on the basis of figures provided by ECLAC, 2003.

a: Estimation corresponding to 18 of the region's countries.

b: Includes indigent population.

c: For 2002 and 2003 the figures are projections.

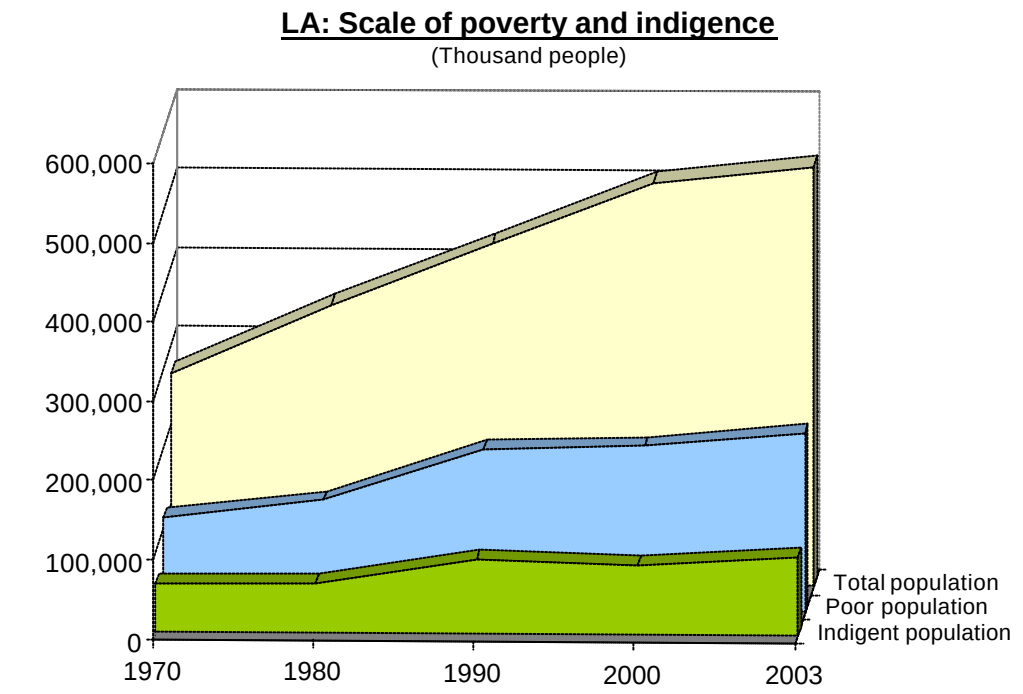
[1] Following CELADE, for 2000 and 2001 the urban proportion is considered to be 75% of the total.

d: Figures for 1970 taken from ECLAC, *Social Panorama, 1994.*

[24] This chapter analyses poverty trends in 18 Latin American and Caribbean countries for which information was available.

[25] Estimations of the magnitude of poverty were obtained from ECLAC, based on calculations of the cost of basic needs and poverty lines. The poverty line for each country and geographic zone is estimated in terms of the cost of a basic food basket. The value of this basket is added to an estimate of the resources needed to satisfy basic non-food needs. The indigence line corresponds to the cost of the food basket, and the indigent (or extremely poor) are defined as persons living in households whose incomes are so low that even if they were used entirely to purchase food, they would be insufficient to satisfy the nutritional needs of all family members. The value of the poverty line is obtained by multiplying the indigence line by a constant factor that takes account of basic non-food expenses, which, for urban areas, corresponds to 2, and in rural zones to about 1.75 (ECLAC, 1999, *Social Panorama 2000-2001*, box I.2). Calculation of these lines took account of differences in food prices between metropolitan areas, other urban and rural zones. Generally speaking, the prices considered for urban and rural centres are some 5% and 25%, respectively, lower than those prevailing in metropolitan areas.

Figure 55

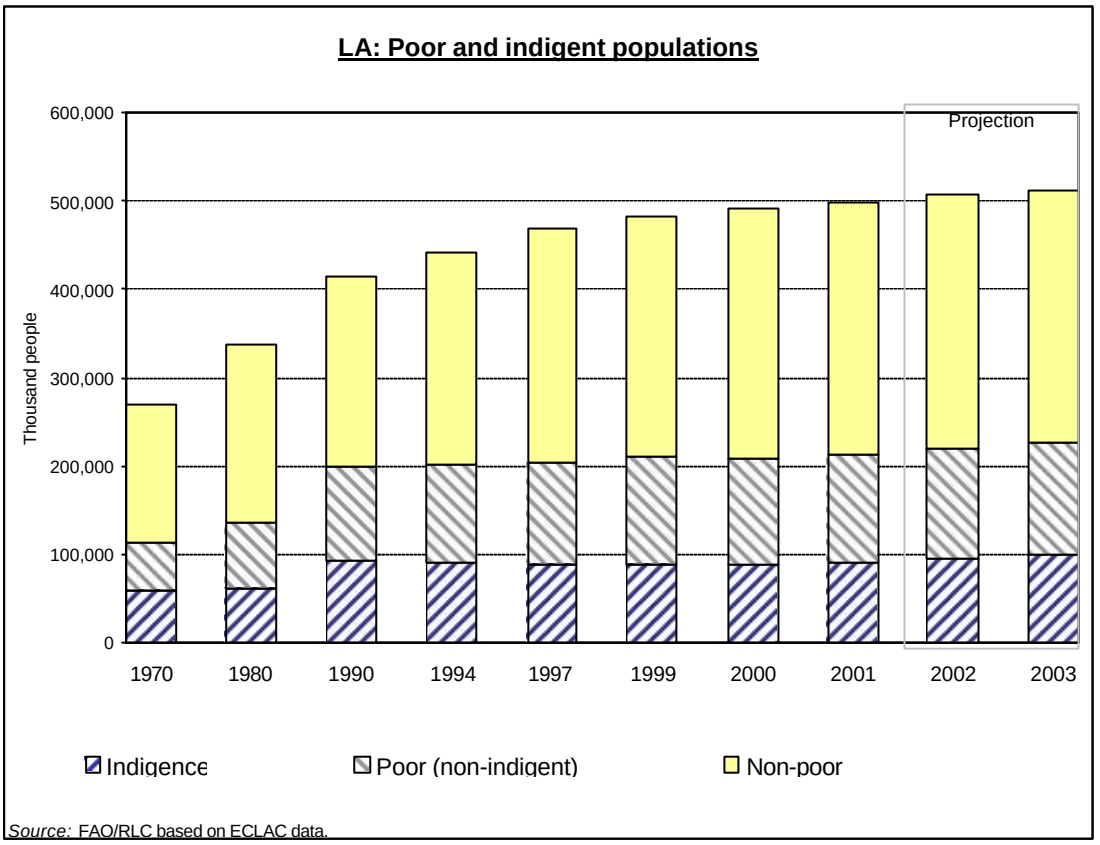


Source: RLCP based on figures provided by ECLAC, 2003.

The region's indigent population is also expanding, having grown almost continuously to reach its current peak of 100 million. The number of indigent people only declined between 1990 and 1997, and again in 2000; but since then the number has rebounded to its current maximum.

Indigence affects almost one fifth of Latin America's total population, and to date it has been impossible to achieve a sustained reduction in this proportion. The fraction of the population living in conditions of indigence declined slowly until 1980, when it stood at 18.6%. During the "lost decade", the proportion rose to 22.5% by 1990. In the 1990s, the indigence rate declined slowly but steadily, to reach 17.9% in 2000; but since then, it has risen again to currently stand at 19.4% (see figure 56).

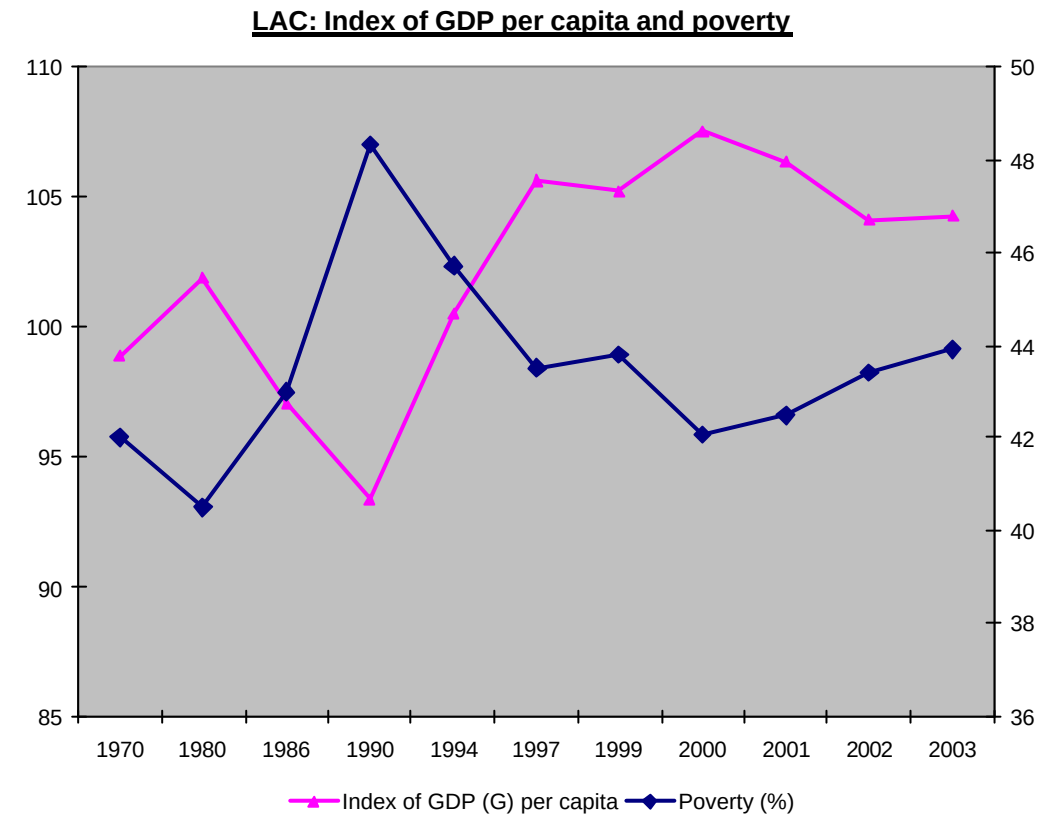
Figure 56



Source: FAO/RLC based on ECLAC data.

Periods when the proportions of poor and indigent persons in the total population ease somewhat tend to coincide with economic growth episodes, and the percentages tend to rise again during recessionary phases. This is eloquently illustrated by a comparison of changes in the percentage of poor and the index of per capita output, which depends essentially on the pace of economic expansion, since the trend of demographic growth is very stable (see figure 57).

Figure 57

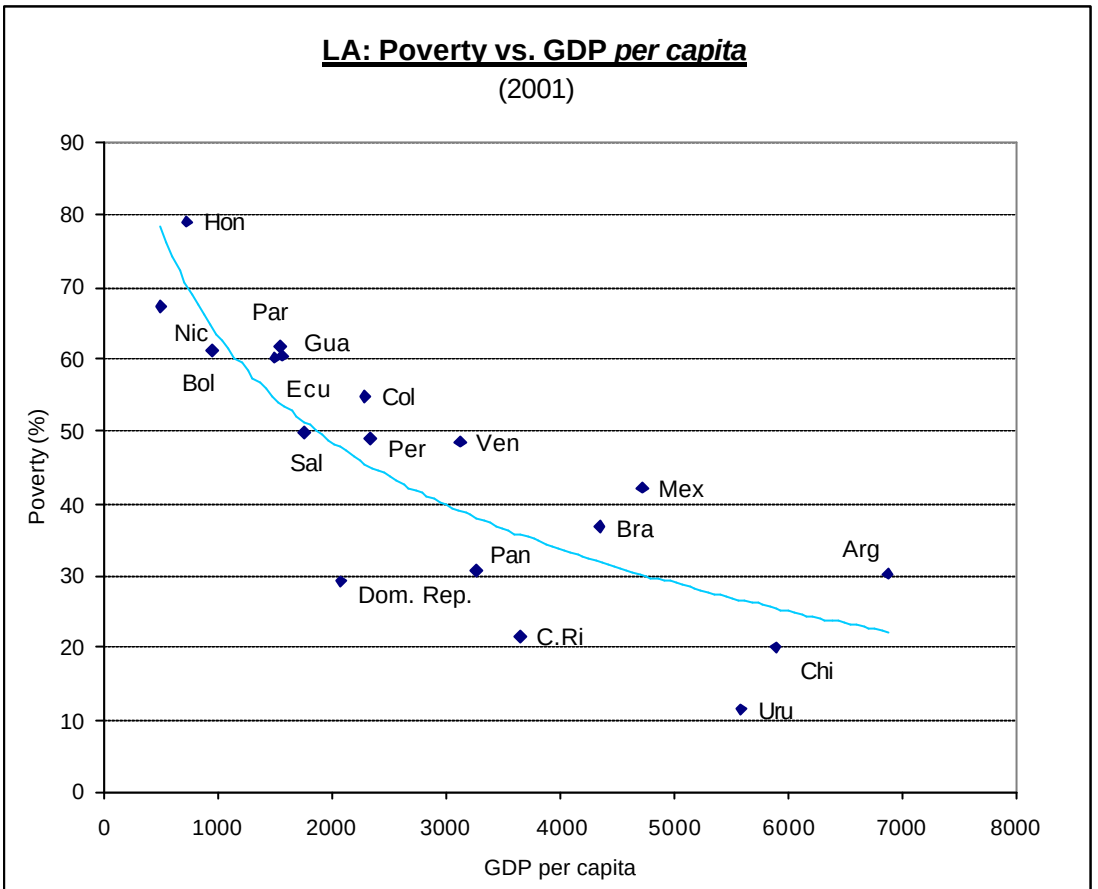


Source : FAORLCP based on ECLAC data, 2004.

The relative reduction of poverty in Latin America thus displays a clear and logical direct correlation with economic growth. Although this relation is mediated by other factors that also have an significant effect, the expansion of poverty during the numerous economic crises experienced by the region in recent years shows that sustained economic growth is a necessary, albeit insufficient, condition for reducing it.

Moreover, while it is clear that countries with lower per-capita incomes have higher poverty indices, some countries with a better income distribution, such as Uruguay or Costa Rica (or with high income concentration but at the very top of the distribution, such as Chile) have lower poverty indices than one would expect from their per-capita income levels. The effect of economic growth on poverty may vary greatly, depending on the variables that affect the distribution, especially employment conditions (see figure 58).

Figure 58



Source: FAO based on ECLAC figures,

On the other hand, a substantial proportion of the indigent population consists of groups that suffer from severe degrees of economic exclusion, so growth on its own is unlikely to have a direct effect on reducing indigence. Nonetheless, in some countries economic growth may improve possibilities for financing policies and programmes to reduce indigence, which would also have a positive effect on these population groups (provided such policies and programmes actually exist and are effective).

The incidence of poverty varies widely between the countries of the region.[26] In Latin America Uruguay currently has the smallest proportion of poor (11.4%) and indigent (2.4%) in total population, while the significant economic and social progress achieved by Chile over the last decade makes it the second country with less than 20% of its population classified as poor. Costa Rica is also close to that level (22%). In half of the other countries, the poor represent between 25% and 50% of the total; in the other half they are between 50% and 75% (see table 22 and figure 59).

[26] Information is only available for 18 countries.

Table 22

Extent of poverty and indigence in Latin America

(1990-2001)

	1990		1999		2000		2001	
	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence
	(Percentage of population)							
Argentina a/	28.5	8.2	19.7	4.8	24.7	7.2	30.3	10.2
Bolivia	64.2	39.5	60.6	36.4	60.6	36.5	61.2	37.3
Brazil	48	23.4	37.5	12.9	36.5	12.3	36.9	13
Chile b/	38.6	12.9	21.7	5.6	20.6	5.7	20	5.4
Colombia	56.1	26.1	54.9	26.8	54.8	27.1	54.9	27.6
Costa Rica	26.2	9.8	20.3	7.8	20.6	7.9	21.7	8.3
Ecuador a/	62.1	26.2	63.6	31.3	61.3	31.3	60.2	28.1
El Salvador	60.2	27.7	49.8	21.9	49.9	22.2	49.9	22.5
Guatemala c/	69.1	41.8	60.5	34.1	60.1	33.7	60.4	34.4
Honduras	80.5	60.6	79.7	56.8	79.1	56	79.1	56
Mexico b/	47.8	18.8	46.9	18.5	41.1	15.2	42.3	16.4
Nicaragua	77.6	51.4	69.9	44.6	67.5	41.4	67.4	41.5
Panama	45.7	22.9	30.2	10.7	30	10.7	30.8	11.6
Paraguay /e	63	35	60.6	33.8	61.7	35.7	61.8	36.1
Peru	56	25	48.6	22.4	48	22.2	49	23.2
Dominican Republic	41.3	21.4	37.2	14.4	29.5	10.9	29.2	10.9
Uruguay a/	17.8	3.4	9.4	1.8	10.2	2	11.4	2.4
Venezuela	40	14.6	49.4	21.7	48.8	21.2	48.5	21.2
Latin America	48.3	22.5	43.8	18.5	42.1	17.8	43	18.6
	(Thousand people)							
Argentina a/	9,270	2,667	7,206	1,756	9,147	2,666	11,359	3,824
Bolivia	4,220	2,596	4,934	2,964	5,047	3,040	5,212	3,176
Brazil	71,019	34,622	63,092	21,704	62,198	20,960	63,674	22,433
Chile b/	5,057	1,690	3,259	841	3,133	867	3,080	832
Colombia	19,618	9,127	22,729	11,095	23,074	11,410	23,499	11,814
Costa Rica	799	299	798	307	829	318	892	341
Ecuador a/	6,374	2,689	7,893	3,885	7,752	3,958	7,754	3,619
El Salvador	3,077	1,416	3,066	1,348	3,133	1,394	3,194	1,440
Guatemala c/	6,046	3,657	6,709	3,782	6,842	3,837	7,059	4,020
Honduras	3,920	2,951	4,988	3,555	5,076	3,594	5,201	3,682
Mexico b/	39,781	15,646	45,660	18,011	40,636	15,029	42,456	16,460
Nicaragua	2,967	1,966	3,452	2,202	3,423	2,099	3,510	2,161
Panama	1,096	549	849	301	857	306	893	336
Paraguay /e	2,658	1,477	3,247	1,811	3,391	1,962	3,483	2,035
Peru	12,079	5,392	12,262	5,652	12,318	5,697	12,786	6,054
Dominican Republic	2,916	1,511	3,064	1,186	2,470	913	2,484	927
Uruguay a/	553	106	311	60	340	67	383	81
Venezuela	7,801	2,847	11,711	5,144	11,795	5,124	11,947	5,222
	(Thousand people)							
Latin America	200.2	93.4	211.4	89.4	206.7	87.5	214.3	92.8

Source: RLCP on the basis of figures provided by ECLAC; as from 2000 figures are micro-simulations based on household surveys carried out by the respective countries.

a/ Urban area only.

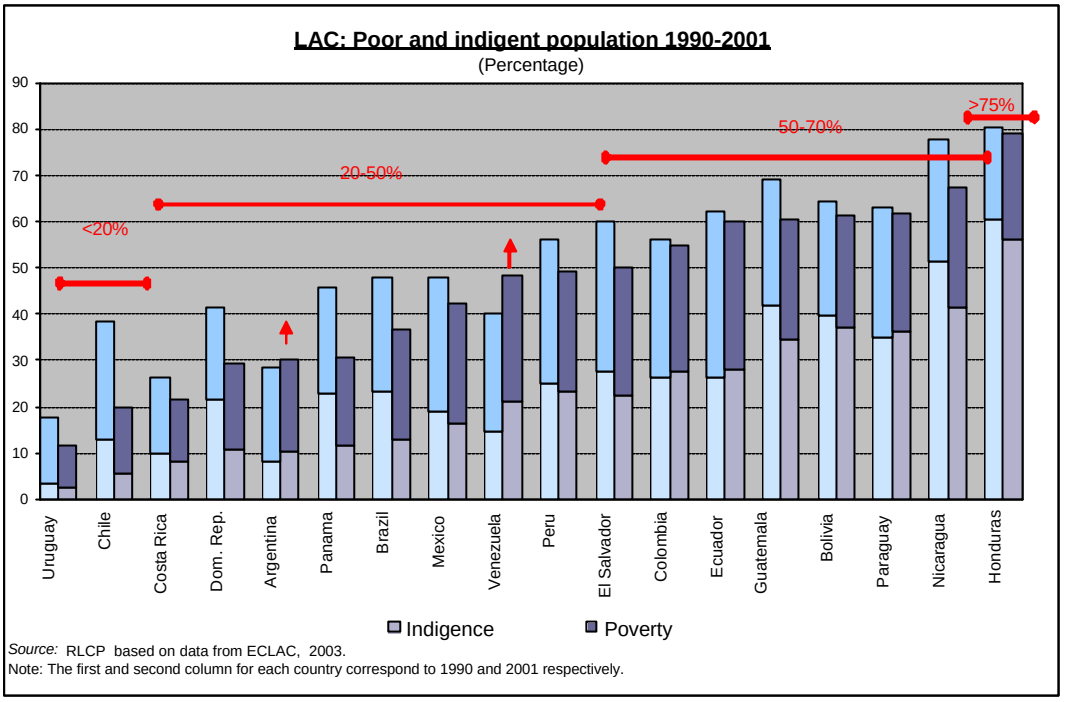
b/ The 1999 figure corresponds to the 1998 measurement. c/ The 2000 figure corresponds to the measurement based on household surveys.

c/ The 1990 figure corresponds to the 1998 measurement.

d/ The 1999 figure corresponds to the 1997 measurement.

e/ The 1994 figure corresponds to the urban area.

Figure 59



Source: RLCP based on data from ECLAC, 2003.
Note: The first and second column for each country correspond to 1990 and 2001 respectively.

Despite fluctuations in the alleviation of poverty, over the last decade its incidence has been reduced in most of the region's countries. The extent of progress varies considerably, but was particularly significant in Chile, and to a lesser extent also in Panama, Brazil and the Dominican Republic. Among the 18 countries for which information is available, the proportion of poor people increased only in Argentina and Venezuela.

According to recent estimations by ECLAC,[27] in recent years (2002 and 2003) poverty indicators in Latin American countries have generally varied by small amounts. Argentina, along with Uruguay to a lesser extent, were among the exceptions that saw their living standards deteriorate substantially in 2002. ECLAC projections for 2003 suggest that poverty rates will rise slightly regionwide, caused largely by a lack of growth in per capita GDP. Poverty conditions are likely to remain unchanged in most countries, except in Venezuela where the proportion of poor could grow significantly, and in Argentina where the restoration of economic growth can be expected to reduce the fraction of the population living in poverty.

(i) Urban and rural poverty

Relations between economic growth and poverty also display significant peculiarities that differentiate between poverty and indigence in the urban and rural domains.

Up to 1980 most poor people lived in the countryside. During the 1980s, the impact of the debt crisis, in conjunction with a vigorous urbanization process, caused urban poverty indices to worsen substantially. Between 1980 and 1990 the number of poor people living in the cities doubled, whereas in the countryside the number only rose by 8%. Since then,

[27] Síntesis Panorama Social de la CEPAL, 2002-2003.

and given that the total rural population has remained broadly constant as a result of emigration, most poor people now live in the cities (see table 23).

Table 23

LAC: Scale of urban and rural poverty and indigence a/

(1980-2001)

Year	Poor population b		Indigent population	
	Urban[1]	Rural	Urban	Rural
(Thousand people)				
1970	41,600	71,200	18,700	41,300
1980	62,900	73,000	22,500	39,900
1986	94,400	75,800	35,800	45,600
1990	121,700	78,500	45,000	48,400
1994	125,900	75,600	44,300	47,400
1997	125,700	78,200	42,200	46,600
1999	134,200	77,200	43,000	46,400
2000	130,354	76,837		
2001	135,056	80,186		
(Percentage)				
1970	27.0	63.0	12.0	37.0
1980	29.8	59.9	10.6	32.7
1986	36.0	60.0	14.0	36.0
1990	41.4	65.4	15.3	40.4
1994	38.7	65.1	13.6	40.8
1997	36.5	63.0	12.3	37.6
1999	37.1	63.7	11.9	38.3
2000	35.4	62.6		
2001	36.1	64.3		

Source : FAO/RLC on the basis of figures provided by ECLAC, 2003.

a: Estimation corresponding to 18 of the region's countries.

b: Includes the indigent population.

c: For 2002 and 2003, the figures are projections.

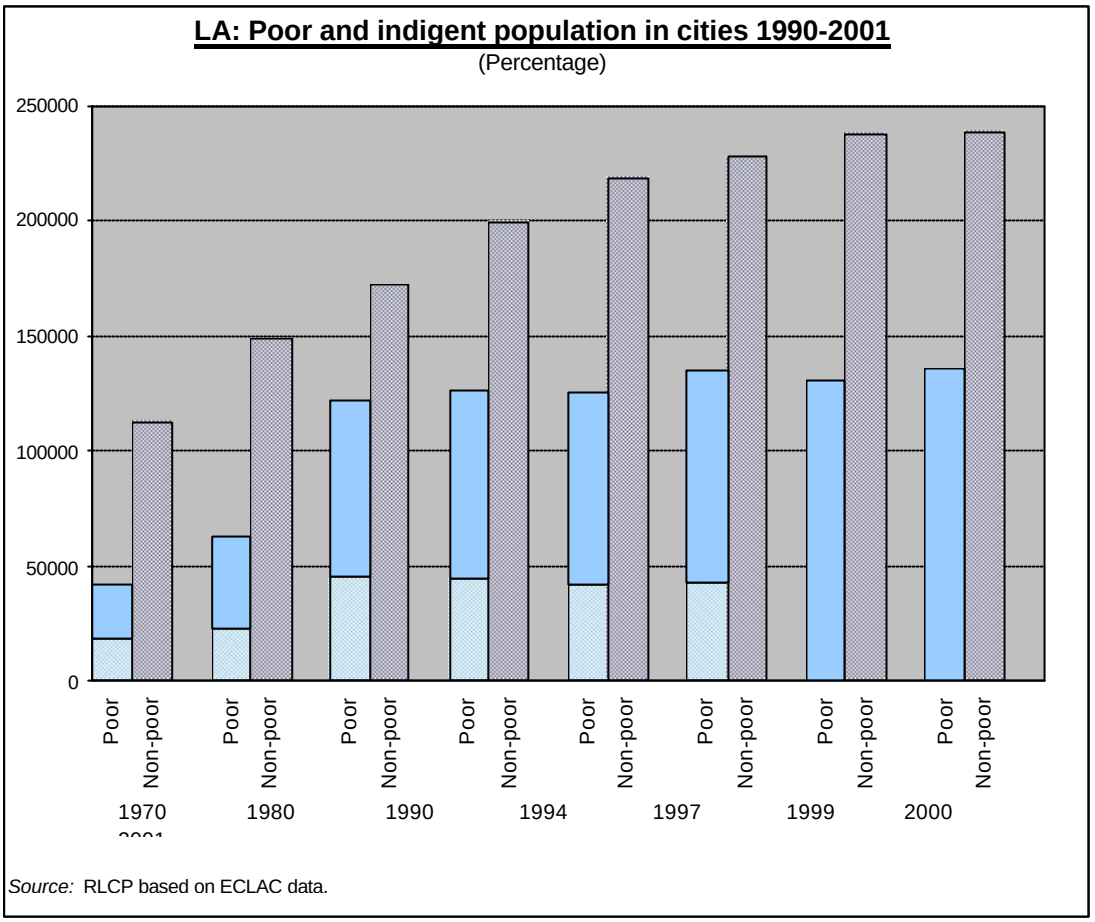
[1] Following ECLAC, for 2000 and 2001, the urban proportion is assumed to be 75% of the total.

d: For 1970, the figures are obtained from ECLAC, *Social Panorama, 1994*.

Scant and intermittent progress in reducing poverty, in conjunction with urbanization, mean that nearly two thirds of all poor and half of all indigent people now live in the cities. In absolute terms, poverty is mostly located in urban areas.

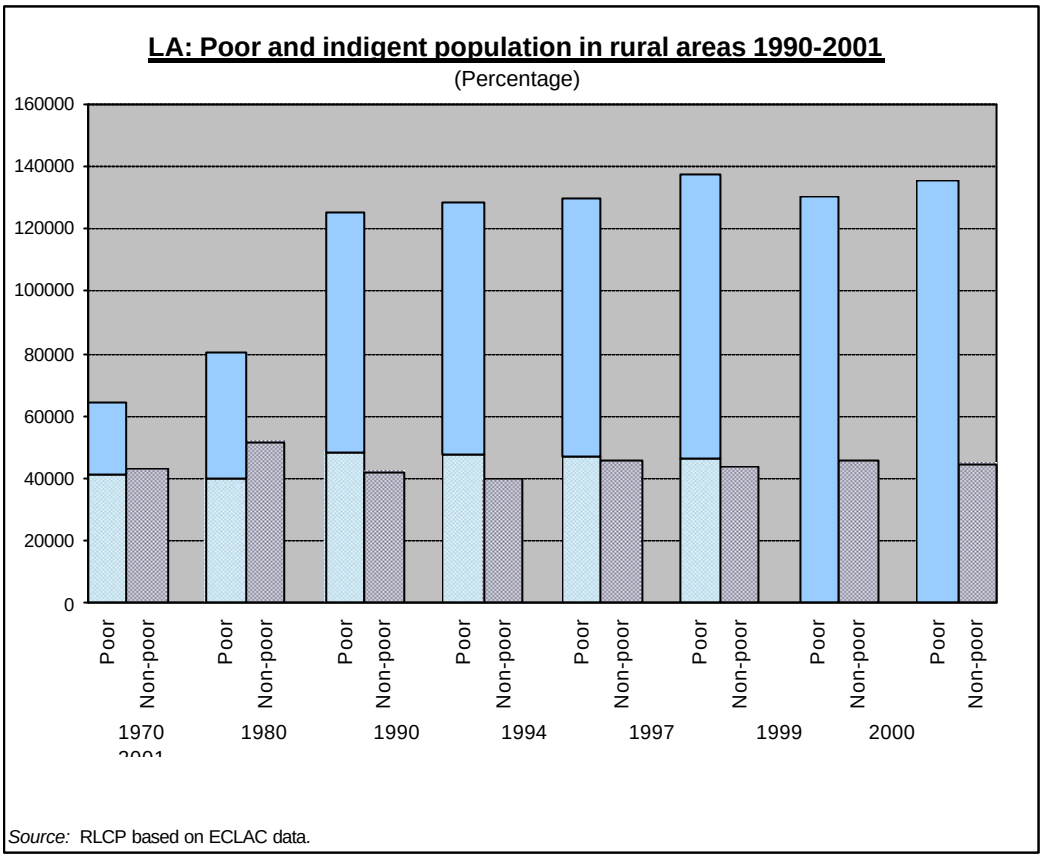
Nonetheless, following explosive growth in the number of poor and indigent people in the cities during the 1980s, these population groups have been growing more slowly than the overall pace of demographic growth since 1990. This is clearly shown in the urban area, where the proportion of poor people in the cities has fallen gradually from 41.4% in 1990 to 36.1% in 2001 (the last year for which data is available) (see figure 60).

Figure 60



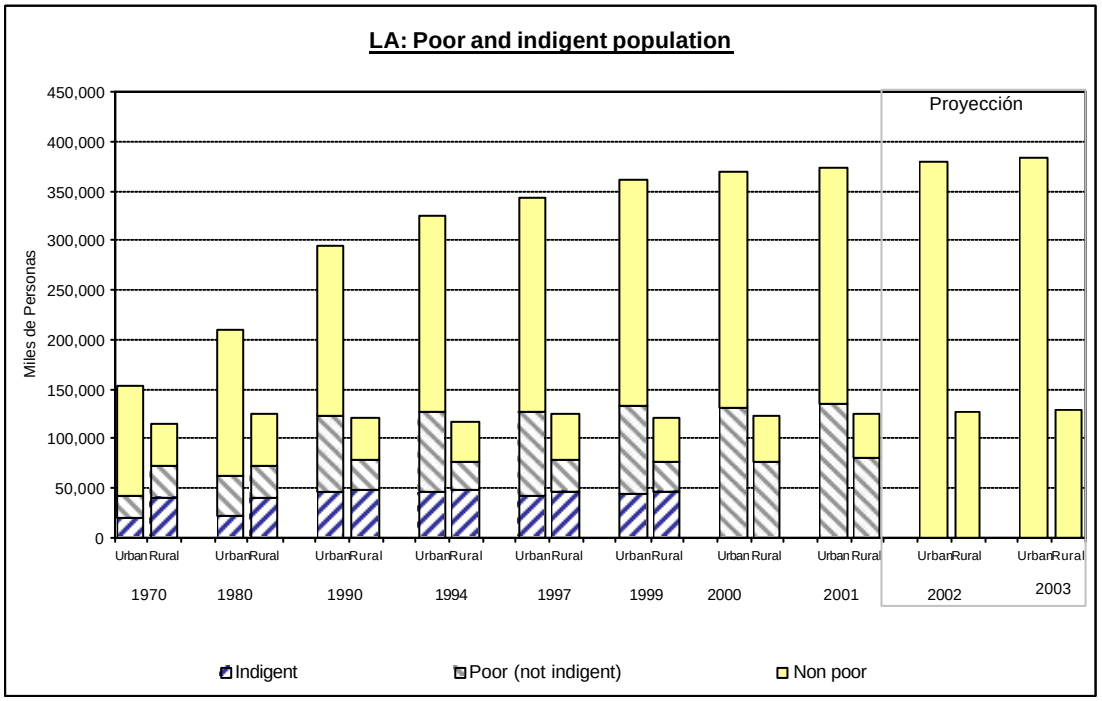
In contrast, about two thirds of the total rural population are poor, and two fifths are indigent. These proportions have remained virtually unchanged since 1990 (see figure 61).

Figure 61



Most of the poor population, and roughly half of all indigent people live in the cities; but, as a proportion of the total population, the incidence of poverty and indigence is much greater in the countryside (see figure 62).

Figure 62



Poverty remains a widespread feature of rural life in Latin American and Caribbean countries, and the fight against poverty is not achieving positive results. In fact rural poverty relief has relied more on high levels of emigration than on a reduction in the gap between living conditions in the countryside and those in the city. Moreover, a large proportion of poor people living in the cities are of immediate or recent rural origin. The number of poor and indigent people in rural areas tends to be sustained over time, and represents part of the hard core of structural poverty that responds little to changes arising from overall economic growth.

Scant progress in reducing poverty and indigence, compounded by fluctuations in the pace of progress, partly reflect the obstacles facing economic growth in the region. In each episode of economic crisis or recession, poverty tends to increase. Consequently, sustained economic growth is an essential condition for reducing it – a necessary condition but not a sufficient one. A more equitable income distribution is essential to allow growth to contribute to poverty reduction; but there are also population nuclei which, given their marginality, represent hard cores of poverty that can only be tackled through measures that specifically target this population group.

The challenge is to speed up the pace of growth, placing emphasis on the quality of jobs and social protection systems, together with an increase in productivity, to continue reducing poverty on a sustained basis in a process that also makes it possible to diminish inequality.

Studies carried out by the United Nations Development Programme (UNDP), in collaboration with ECLAC and IDB, show that the most important factor explaining changes in poverty levels and inequality is economic-policy design. The most effective tool for combating poverty, along with its inter-generational reproduction and inequality, is therefore the design of economic policy itself. This needs to incorporate explicit targets for reducing poverty and inequality, and for expanding quality job opportunities for population sectors in which poverty levels are high.

In the fight against poverty it is essential to establish social policies that benefit the excluded population, bearing in mind that measures to combat poverty should not conflict with the principles that underpin stability and economic growth. Policies favouring intensive use of labour in poverty areas contribute as much to growth as to poverty relief.

In addition, universal coverage of basic social services is one of the most effective tools for overcoming poverty, as are improvements in access to and coverage of rural services, in order to boost rural productivity. Access and coverage for the most poor to public utilities – health, education, water, electricity, etc. – need to be increased in a coordinated and comprehensive way to avoid duplication of effort.

Unequal access to public resources and decision making among a large proportion of the population underlies economic inequality in the region. There is a need to strengthen institutions and reduce the economic, social and political exclusion that affects much of the population. More open social and political institutions need to be constructed, to afford minorities and excluded groups greater involvement and more active participation in society.

A priority is to significantly strengthen efforts in education, culture, training and human capital investment, while developing more efficient institutions and reducing polarization in power relations.

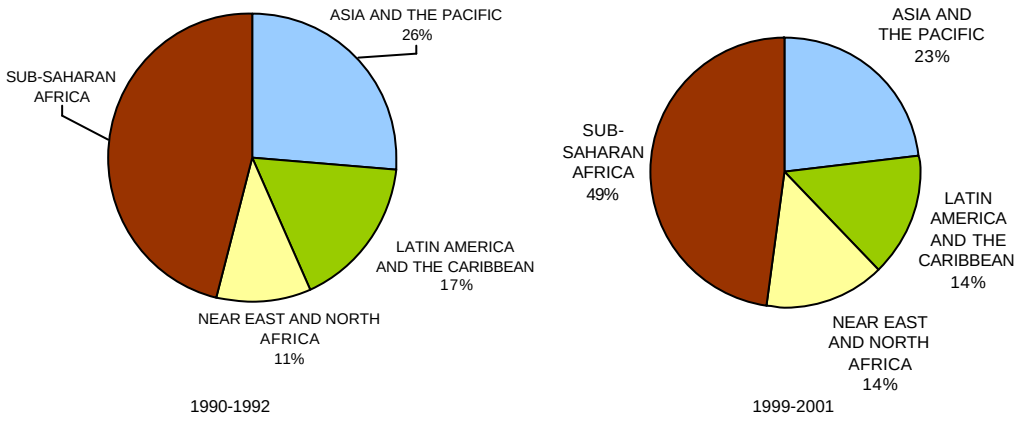
H. FOOD SECURITY

"Food security exists when all persons at all times have physical and economic access to sufficient safe and nutritious foods to meet their dietary needs and food preferences for an active and healthy lifestyle."[28]

If the condition defined above depended on productive capacities alone, it could easily be attained. Current technological developments make it possible to produce more than enough to feed the world's entire population. Nonetheless, at the start of the third millennium, there were 842 million undernourished people in the world, the vast majority of whom (790 million) were living in developing countries[29] (see figures 63 and 64).

Figure 63

Prevalence of undernutrition
(Percentage of total population)

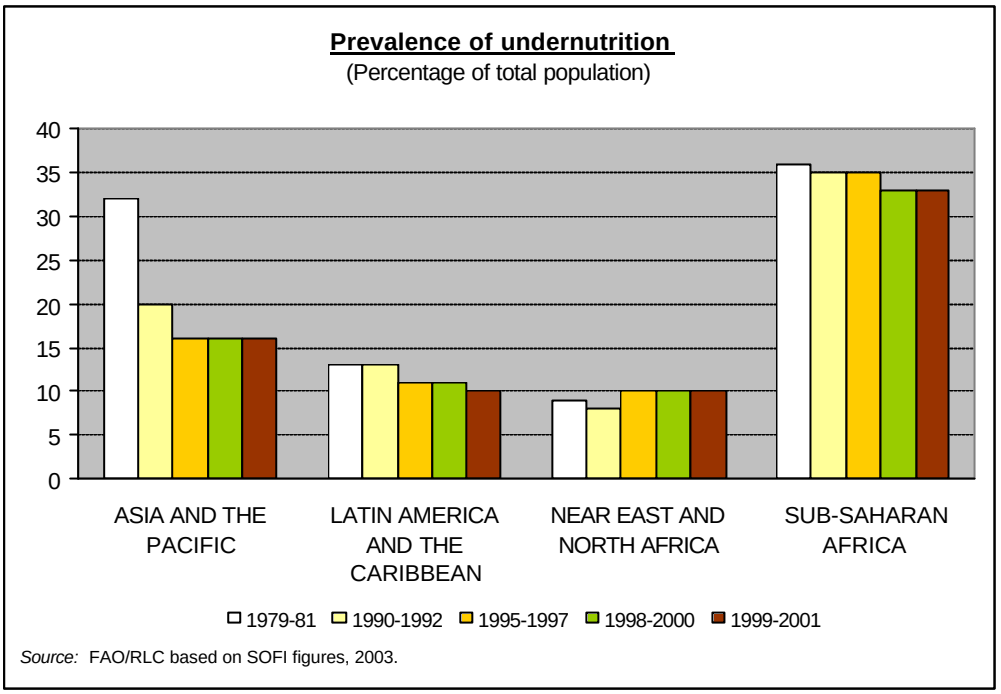


Source: FAO/RLC based on figures supplied by SOFI, 2003.

[28] FAO definition of food security used in the Rome Declaration, 1996.

[29] FAO estimates show that there were 842 million undernourished people in the world in 1999-2001: 10 million in industrialized countries, 34 million in transition countries, and 798 million in developing countries. FAO, *The State of Food Insecurity in the World 2003.*

Figure 64



In Latin America and the Caribbean, even more so than in the world as a whole, the main cause of undernutrition, and the slow progress in reducing it, is not a lack of capacity to produce sufficient food; the region produces a comfortable surplus in its international trade in food. Moreover, the vast majority of countries of the region produce food surpluses individually. The few that do not include several major oil exporters or tourist destinations, which have sufficient external purchasing power to complement their domestic food supply through imports.

The main problem in achieving food security concerns access possibilities. In other words, there are population groups that have insufficient income to gain access to the food that is available on the market, or to resources enabling them to produce it in a subsistence system. In short, food insecurity is a problem of poverty in the vast majority of cases.

Nonetheless, there are also factors caused by the isolation of certain areas, and sometimes emergencies arising from natural disasters or social conflict situations have been partly to blame. Economic upheavals can also aggravate undernutrition; for example, in recent years the collapse of coffee prices has been one of the main causes of food insecurity problems in Central American countries. On the other hand, social protection networks can help restrict the effects of climate, social or economic disturbances on food security, and reduce undernourishment and child malnutrition among poor population groups.

The undernourished population in Latin America and the Caribbean decreased from 59.0 million at the start of the 1990s to 53.4 million by the end of that decade, in other words from 13% to 10% of the total population. Proportionately, the largest number of undernourished people are in Brazil, 15.6 million; followed by Colombia (5.7 million), Mexico (5.2 million), Venezuela (4.4 million) and Haiti (4 million) (see table 24 and figure 65).

Table 24

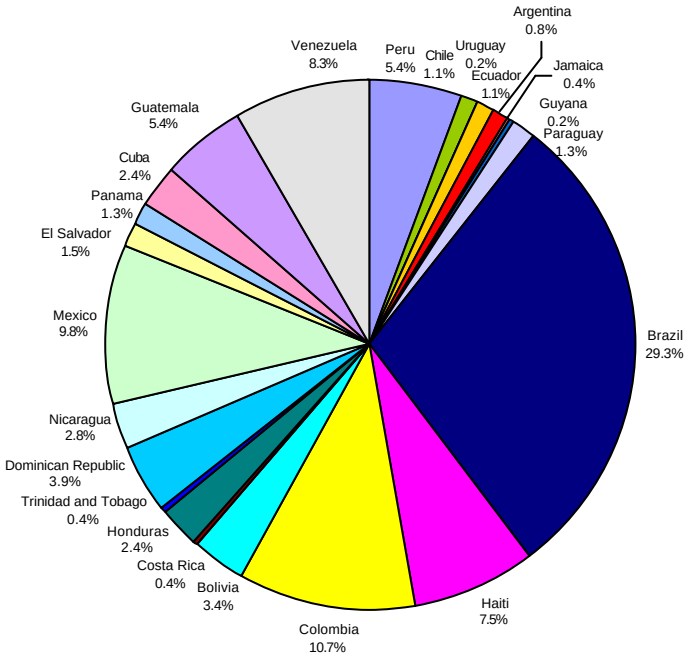
Prevalence of subnutrition in developing countries and transition countries

DEVELOPING COUNTRIES	Number of undernourished persons					Proportion of undernourished persons in the total					Proportion of undernourished persons in the				
	1979-81	1990-1992	1995-1997	1998-2000	1999-2001	1979-81	1990-1992	1995-1997	1998-2000	1999-2001	1980-1991	1991-1996	1996-00	1980-96	1991-00
Region/subregion/country [subnutrition category]	millions					percentage					percentage change				
Latin America and the Caribbean	**45.9**	**59.0**	**55.3**	**54.8**	**53.4**	**13.0**	**13.0**	**11.0**	**11.0**	**10.0**	**0.00**	**-3.29**	**-2.35**	**-1.04**	**-2.87**
Brazil [3]	**18.1**	**18.6**	**16.7**	**16.7**	**15.6**	**15.0**	**12.0**	**10.0**	**10.0**	**9.0**	**-2.01**	**-3.58**	**-2.60**	**-2.50**	**-3.15**
Mexico [3]	**3.0**	**4.6**	**5.1**	**5.2**	**5.2**	**4.0**	**5.0**	**5.0**	**5.0**	**5.0**	**2.05**	**0.00**	**0.00**	**1.40**	**0.00**
Southern Cone	**1.5**	**2.8**	**1.9**	**1.8**	**1.8**	**3.3**	**5.2**	**3.3**	**3.0**	**3.0**	**4.19**	**-8.81**	**-2.66**	**-0.06**	**-6.13**
Argentina [1]	0.3	0.7	0.4	0.4	0.4	1.1	2.1	1.1	1.1	1.1	6.44	-11.74	-1.24	0.39	-7.22
Chile [2]	0.7	1.1	0.7	0.6	0.6	7.0	8.0	5.0	4.0	4.0	1.22	-8.97	-5.43	-2.08	-7.41
Paraguay [3]	0.4	0.8	0.7	0.7	0.7	13.0	18.0	13.0	14.0	13.0	3.00	-6.30	0.00	0.00	-3.55
Uruguay [2]	0.1	0.2	0.1	0.1	0.1	3.0	6.0	4.0	3.0	3.0	6.50	-7.79	-6.94	1.81	-7.41
Andean countries	**13.9**	**20.0**	**15.2**	**16.0**	**15.4**	**18.7**	**21.1**	**14.5**	**14.4**	**13.6**	**1.08**	**-7.20**	**-1.52**	**-1.59**	**-4.72**
Bolivia [4]	1.4	1.8	1.9	1.9	1.8	26.0	26.0	25.0	23.0	22.0	0.00	-0.78	-3.15	-0.24	-1.84
Colombia [3]	6.1	6.1	5.0	5.6	5.7	22.0	17.0	13.0	13.0	13.0	-2.32	-5.22	0.00	-3.23	-2.94
Ecuador [2]	0.9	0.9	0.6	0.7	0.6	11.0	8.0	5.0	5.0	4.0	-2.85	-8.97	-5.43	-4.81	-7.41
Peru [3]	4.9	8.9	4.2	2.9	2.9	28.0	40.0	18.0	11.0	11.0	3.30	-14.76	-11.58	-2.72	-13.36
Venezuela [3]	0.6	2.3	3.5	4.9	4.4	4.0	11.0	16.0	21.0	18.0	9.63	7.78	2.99	9.05	5.62
Central America	**4.5**	**5.0**	**6.5**	**7.1**	**7.4**	**20.4**	**17.5**	**19.8**	**20.2**	**20.5**	**-1.38**	**2.54**	**0.85**	**-0.17**	**1.78**
Costa Rica [3]	0.2	0.2	0.2	0.2	0.2	8.0	7.0	6.0	5.0	6.0	-1.21	-3.04	0.00	-1.78	-1.70
El Salvador [3]	0.8	0.6	0.8	0.8	0.8	17.0	12.0	14.0	14.0	14.0	-3.12	3.13	0.00	-1.21	1.73
Guatemala [4]	1.2	1.4	2.2	2.8	2.9	18.0	16.0	21.0	25.0	25.0	-1.07	5.59	4.46	0.97	5.08
Honduras [4]	1.1	1.1	1.2	1.3	1.3	31.0	23.0	20.0	21.0	20.0	-2.68	-2.76	0.00	-2.70	-1.54
Nicaragua [4]	0.8	1.2	1.5	1.5	1.5	26.0	30.0	33.0	29.0	29.0	1.31	1.92	-3.18	1.50	-0.38
Panama [4]	0.4	0.5	0.6	0.5	0.7	21.0	20.0	22.0	18.0	26.0	-0.44	1.92	4.26	0.29	2.96
Latin Caribbean	**4.4**	**7.4**	**9.4**	**7.6**	**7.4**	**21.1**	**29.7**	**35.6**	**27.7**	**26.7**	**3.18**	**3.68**	**-6.93**	**3.34**	**-1.18**
Cuba [3]	0.4	0.9	2.7	1.5	1.3	4.0	8.0	24.0	13.0	11.0	6.50	24.57	-17.72	11.85	3.60
Haiti [5]	2.6	4.6	4.6	4.0	4.0	48.0	65.0	60.0	50.0	49.0	2.79	-1.59	-4.94	1.40	-3.09
Dominican Republic [4]	1.4	1.9	2.1	2.1	2.1	25.0	27.0	26.0	26.0	25.0	0.70	-0.75	-0.98	0.25	-0.85
CARICOM	**0.5**	**0.8**	**0.6**	**0.5**	**0.5**	**11.4**	**17.0**	**12.2**	**9.8**	**9.8**	**3.74**	**-6.37**	**-5.41**	**0.47**	**-5.95**
Guyana [3]	0.1	0.2	0.1	0.1	0.1	13.0	21.0	12.0	14.0	14.0	4.46	-10.59	3.93	-0.50	-4.41
Jamaica [3]	0.2	0.3	0.3	0.2	0.2	10.0	14.0	11.0	9.0	9.0	3.11	-4.71	-4.89	0.60	-4.79
Suriname [3]	0.1	0.1	0.0	0.0	0.0	18.0	13.0	11.0	11.0	11.0	-2.92	-3.29	0.00	-3.03	-1.84
Trinidad and Tobago [3]	0.1	0.2	0.2	0.2	0.2	6.0	13.0	14.0	12.0	12.0	7.28	1.49	-3.78	5.44	-0.89

NOTES
The figures placed after the name of the country indicate prevalence categories (Proportion of the undernourished population in 1999-2001):
[1] <2.5% of people undernourished
[2] 2.5-4% of people undernourished
[3] 5-19% of people undernourished
[4] 20-34% of people undernourished
[5] =35% of people undernourished
The table is not include countries for which there was insufficient Information.
*including Taiwan, Province of China.
** information on the proportion of undernourished persons in 1999-2001 was not available; Instead estimations relating to 1998-2000 have been used
Published in the state of food insecurity in the world, 2002.
- proportion of persons undernourished less than 2.5%
n.a. Not available.
SOURCES
Total population: United Nations Population Prospects, rev 2000.
Subnutrition: FAO estimates.

Figure 65

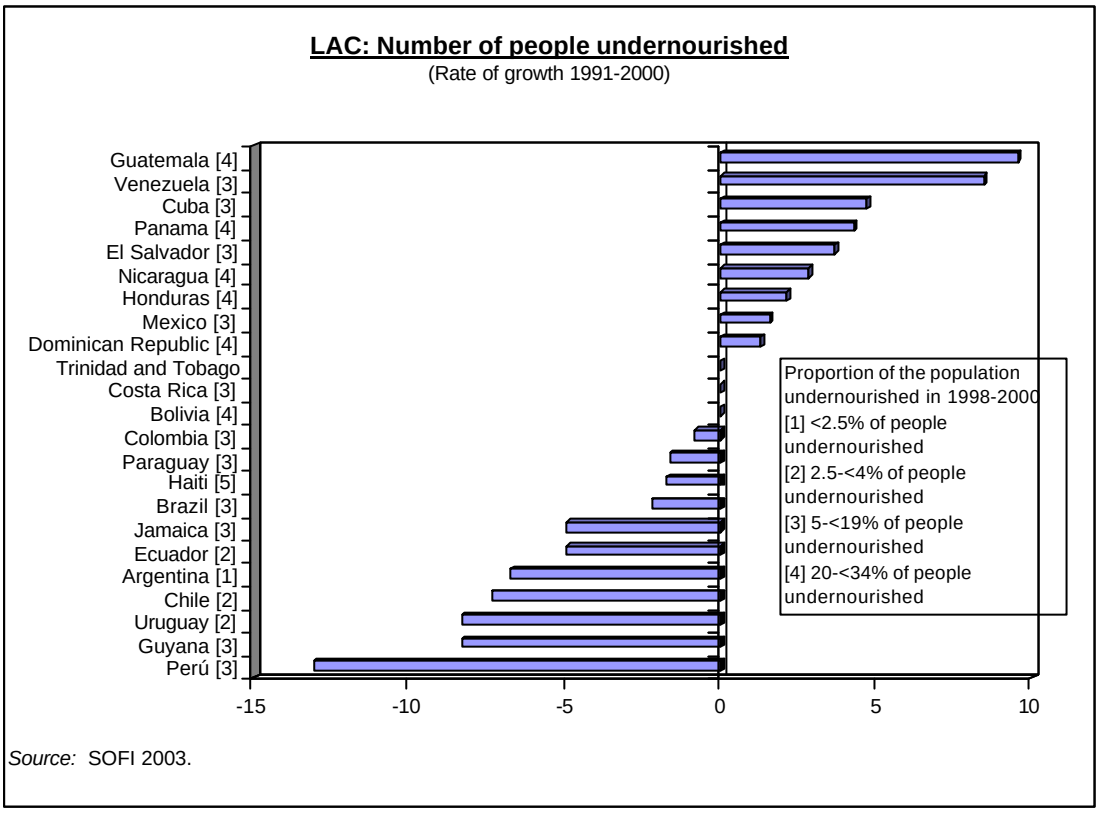
LAC: Persons undernourished, 1999-2001
(Percentages of a total population of 53.4 million)



Source: SOFI 2003.

During the last decade the total number of undernourished people decreased in just 11 of the region's countries; in three other countries the undernourished population remained unchanged from the start of the decade; and in nine countries the number has increased (see figure 66).

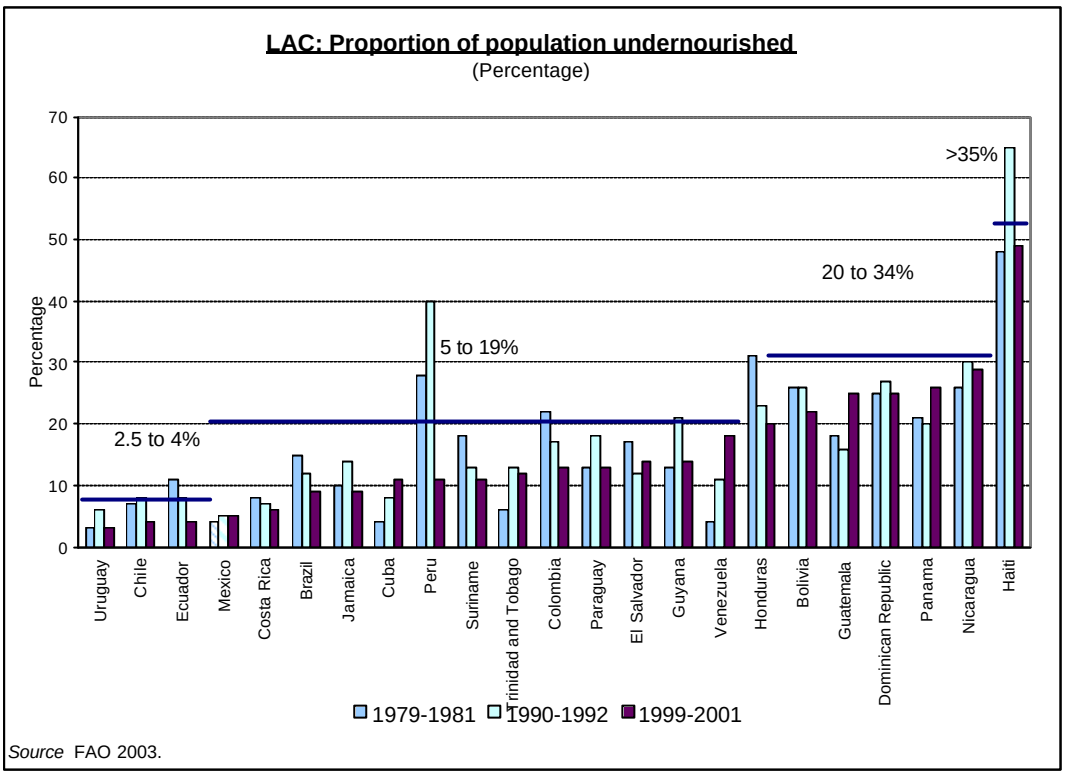
Figure 66



(i) Proportion of population undernourished

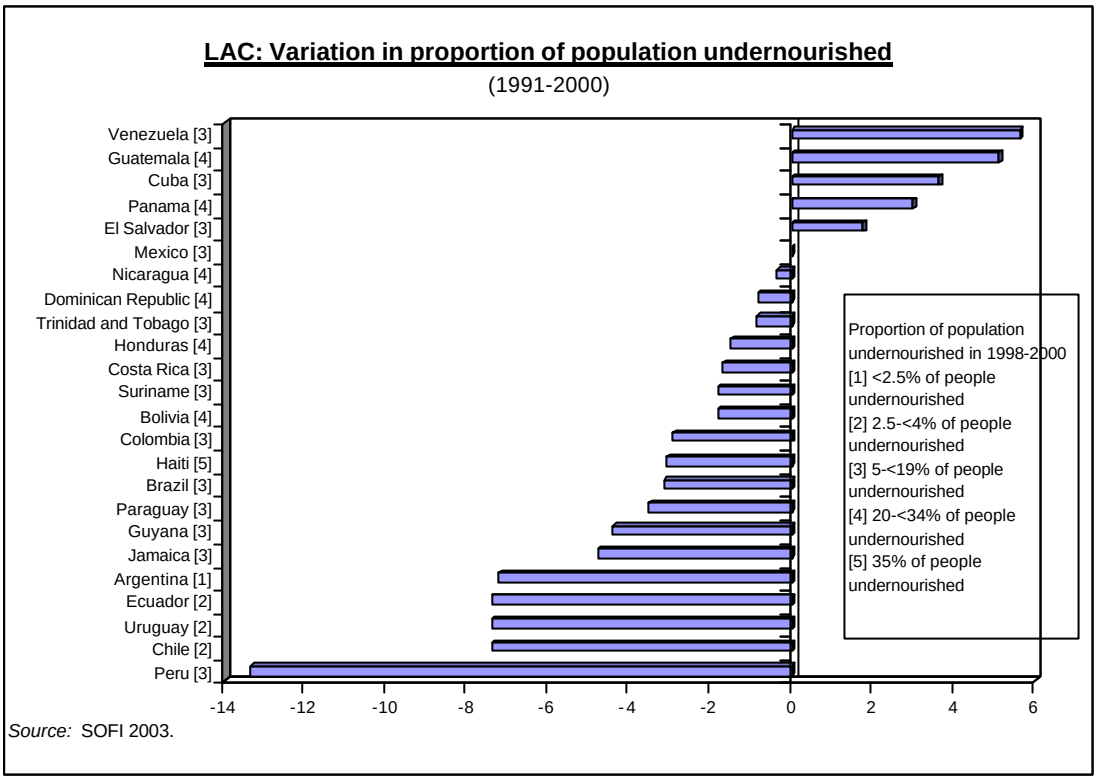
The number of undernourished persons in relation to total populations in the region is especially high in the Latin Caribbean (except Cuba) and in Central America (excluding Costa Rica). The largest percentage is in Haiti, where undernutrition affects almost half the population (49%). In another six countries (Nicaragua, Panama, Dominican Republic, Guatemala, Bolivia and Honduras), undernourishment affects between 20% and 34% of the total population. In most countries of the region (13) the percentages range between 5% and 19%, while in just four countries undernourishment affects less than 4% of the national population: Argentina (under 1%), Uruguay (3%), Chile (4%) and Ecuador (4%) (see figure 67).

Figure 67



During the last decade (1990-1992 to 1999-2001) the incidence of undernutrition declined in 18 of the 24 Latin American and the Caribbean countries for which information is available. The largest reduction as a proportion of the population was achieved in Peru, followed by Chile, Uruguay, Ecuador and Argentina. The incidence of undernutrition worsened in five countries (Venezuela, Guatemala, Cuba, Panama and El Salvador), while the proportion remained unchanged at 5% in Mexico (see figure 68).

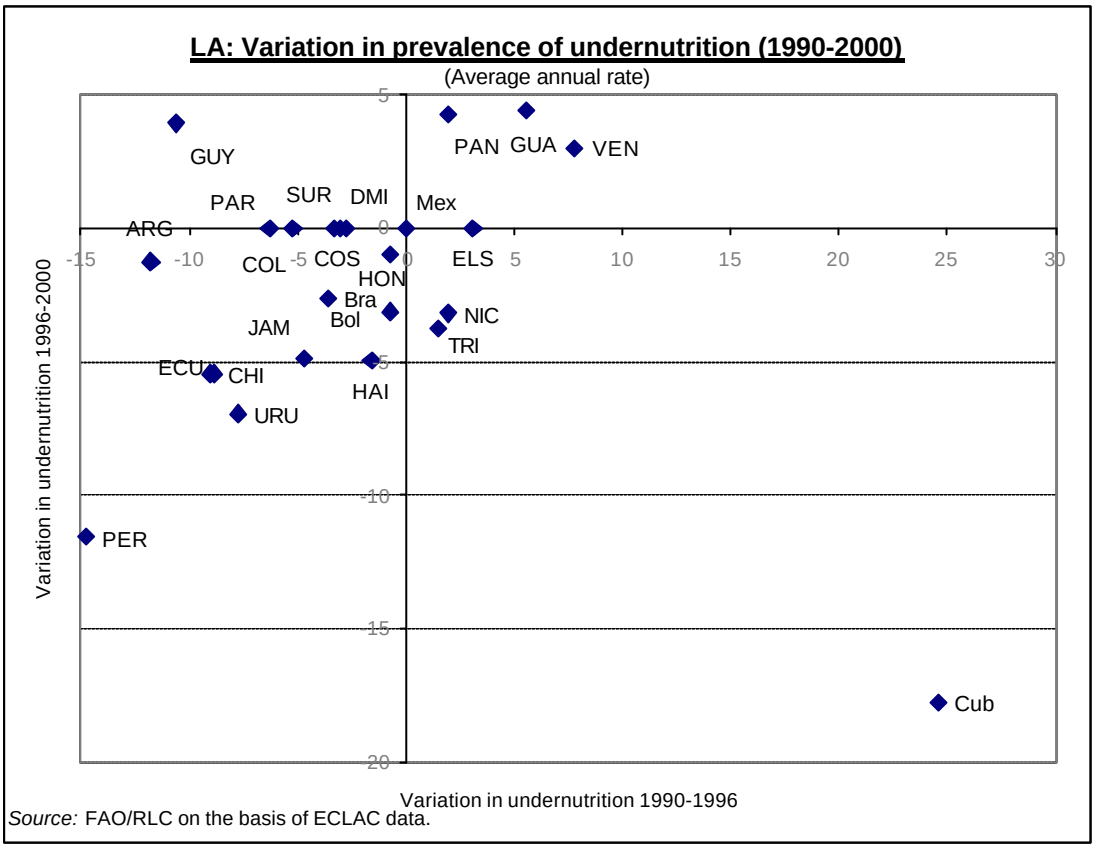
Figure 68



The analysis of the last few years shows a number of positive changes, especially in Central American countries; nonetheless, this progress could be undermined by the negative effects of the collapse of coffee prices. In addition, the slow pace of economic growth in the region between 2001 and 2003 may erode progress registered in the second half of the 1990s (1999-2001 survey).

During the first half of the decade most countries were able to reduce the incidence of undernutrition; but seven were excluded from this progress (Cuba, Venezuela, Guatemala, El Salvador, Nicaragua, Panama, and Trinidad and Tobago). Between 1996 and 2000, three of these countries (Cuba, Nicaragua, and Trinidad and Tobago) managed to reduce undernutrition; but Guyana joined those where its incidence increased. In Venezuela, Guatemala and Panama undernourishment as a percentage of the population grew in both halves of the decade (see figure 69).

Figure 69

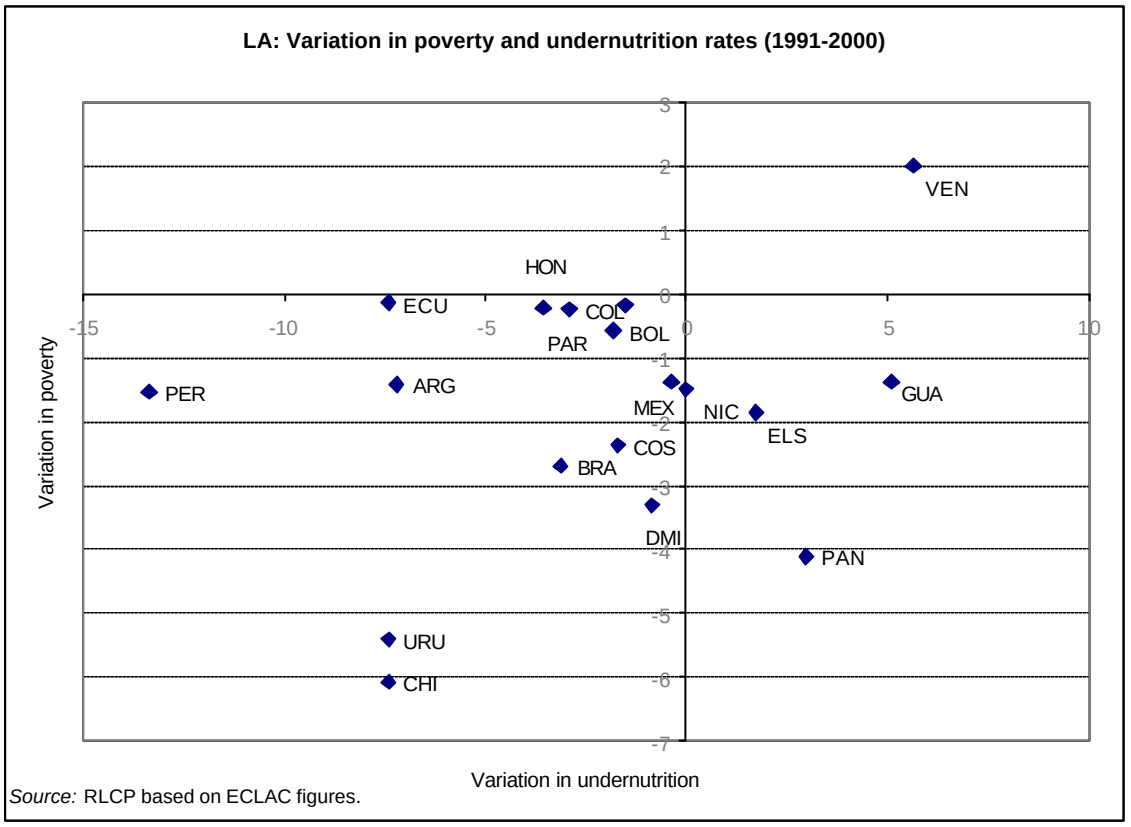


Source: FAO/RLC on the basis of ECLAC data.

A key factor in explaining these changes is economic growth and poverty relief; but these are not exclusive factors, nor do they involve a mere linear relation in which economic growth would lead automatically to poverty reduction and thus to less undernutrition. There is a clear relation between economic growth and poverty reduction; but it is mediated by several factors, particularly the state of the income distribution. Poverty reduction is also a significant factor in reducing undernourishment; but again the relation is neither clearly defined nor linear.

Figure 70 shows that there is no country in which undernutrition has been reduced while poverty has increased (the upper left hand quadrant of the graph). Similarly, in most countries where poverty has decreased, the prevalence of undernutrition has also declined (bottom left-hand quadrant). Nonetheless, there were three countries where poverty decreased but undernutrition increased (Guatemala, Panama, El Salvador). In Venezuela, poverty and undernutrition both increased (see figure 70).

Figure 70



Source: RLCP based on ECLAC figures.

The average availability of food is also a relevant factor, but does not bear a direct linear relation to the prevalence of undernutrition, or to other indicators of the population's nutritional status. Brazil and Mexico, for example, have greater food availability per person than most countries in the region, but the prevalence of undernutrition and child malnutrition are more serious than elsewhere, which raises the need to analyse variables relating to distribution, equity and social exclusion. Cuba, in contrast, has relatively less food availability per person than other countries; but, despite a recent sharp deterioration, it maintains indices of undernutrition and, above all, child malnutrition, that are above the regional average (see table 25).

Table 25

FOOD AVAILABILITY, DIETARY DIVERSIFICATION, POVERTY, HEALTH, NUTRITIONAL STATUS OF CHILDREN IN LATIN AMERICA AND THE CARIBBEAN:

UNDERNUTRITION PREVALENCE CATEGORY, WHOLE POPULATION 1998-2000	FOOD AVAILABILITY AND DIETARY DIVERSIFICATION		INFANT MORTALITY	NUTRITIONAL STATUS OF CHILDREN
	Supply of food energy (SEA) 1999-2001	Supply of non-starchy foods in total SEA	Under fives of mortality rate 2001	Underweight children of younger than five years of age 1995-2001 (latest survey)
	(Kcal/day per person)	(%)	(per 1000 births)	(%)
< 2.5% OF PEOPLE UNDERNOURISHED				
Argentina	3180	65	19	5
2.5 - 4% OF PEOPLE UNDERNOURISHED				
Chile	2850	57	12	1
Ecuador	2740	64	30	14
Uruguay	2840	61	16	4*
5 - 19% OF PEOPLE UNDERNOURISHED				
Brazil	3000	66	36	6
Colombia	2570	59	23	7
Costa Rica	2760	62	11	5
Cuba	2610	60	9	4
El Salvador	2460	47	39	12
Guyana	2540	48	72	12
Jamaica	2690	59	20	4
Mexico	3150	53	29	8
Paraguay	2560	59	30	4*
Peru	2600	46	39	7
Suriname	2630	56	32	n.a.
Trinidad and Tobago	2710	62	20	7
Venezuela	2330	59	22	4
20 - 34% OF PEOPLE UNDERNOURISHED				
Bolivia	2240	49	77	8
Dominican Republic	2320	66	47	5
Guatemala	2160	47	58	24
Honduras	2400	54	38	17
Nicaragua	2250	49	43	10
Panama	2250	62	25	8
> 35% of undernourished people				
Haiti	2040	46	123	17

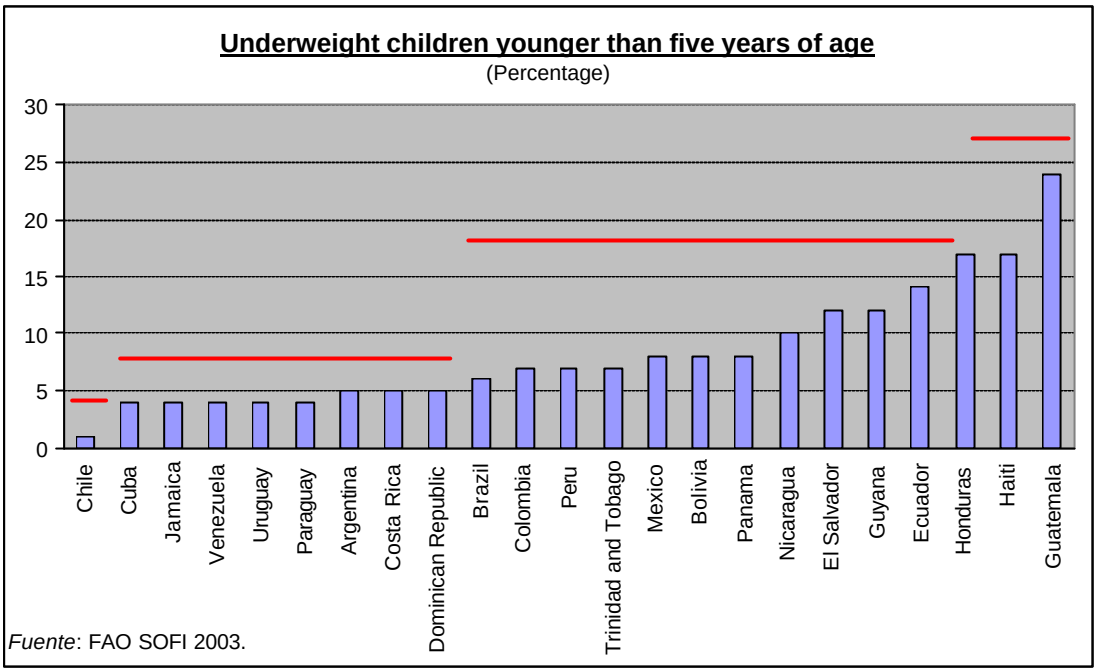
Source: FAO SOFI 2003.

(ii) Child malnutrition

A serious indicator of nutritional shortcomings is the number of underweight children. Undernutrition among children is caused by insufficient consumption of the calories needed to meet their biological needs, undernourished mothers that give birth to underweight children, and illnesses that exhaust those nutrients. In addition, some diets are lacking in essential nutrients.

In Latin America and the Caribbean, the percentage of undernourished children younger than five years of age fell from 11% in 1990 to 8% in 2000. In the latest period for which data is available (1990-2000), nine countries display figures of 5% or lower; in 10 countries the population of under fives that are underweight for their age varied between 5% and 15%; in three countries (Guatemala, Haiti and Honduras) the figure was close to or above 25%. Child undernutrition continues to be a problem mainly of low-income countries and the poorest regions of middle-income countries (see figure 71).

Figure 71



The most severe manifestation of hunger and extreme poverty among children is chronic undernourishment, which causes retardation and small size for age. The seriousness of this problem stems from the irreversible nature of its sequels, because it occurs at the most critical age for children's psycho-motor development. It thus becomes one of the main mechanisms by which poverty is transmitted from one generation to the next.

(iii) The pledge of the World Food Summit

The World Food Summit pledged to cut the number of people suffering from hunger in half, by 2015. A similar objective was included among the Millennium Development Goals; in this latter case, the proposal is to halve the proportion of undernourished people.[30] Despite the progress made in reducing the percentage of undernourished people in Latin America and the Caribbean, described above, in absolute terms the number of undernourished persons fell by 5.6 million between 1990 and 2000 (from 59.0 million to 53.4 million), i.e. by about 622,000 people per year. This is far below the rate of 1.2 million people per year that would be necessary to reduce the number of undernourished people by 29.5 million before 2015. To achieve the target of the World Food Summit, the annual rate of reduction would need to rise to 2 million during the last 15 years of the period (2000 to 2015).

The situation in the individual countries of the region is quite varied in this respect. Some have already met the target set for 2015, and others are well on the way to doing so; But there are other countries that are lagging behind, and some that have even regressed from their starting point.

[30] The difference between these two ways of expressing the general objective stems from their consideration of demographic growth. The World Food Summit pledge is more ambitious because it considers halving the absolute number of undernourished people, regardless of whether the number of people enjoying food security increases; in contrast, the Millennium Goal is expressed in terms of halving the ratio between the two groups.

Peru, Chile and Uruguay have already managed to comply with the goal of the World Food Summit and the food security goal included among the Millennium Development Goals. Another four countries (Ecuador, Argentina, Jamaica and Guyana) display undernutrition reduction rates that should enable them to meet both targets before 2015. Four more (Paraguay, Brazil, Haiti and Colombia) are reducing the prevalence of undernutrition at a rate that should allow them to halve the proportion of undernourished people by 2015, but not the absolute number of people affected. In Bolivia, Suriname and Costa Rica, the rate of progress achieved to date is unlikely to be sufficient to attain either of the two goals by 2015. Lastly, in Venezuela, Cuba, Panama, Dominican Republic and the Central American countries (except Costa Rica), both the number of undernourished people and the prevalence of undernutrition are on the rise; and in Mexico, while undernutrition prevalence has not changed, the absolute number of undernourished people has grown (see figure 72).

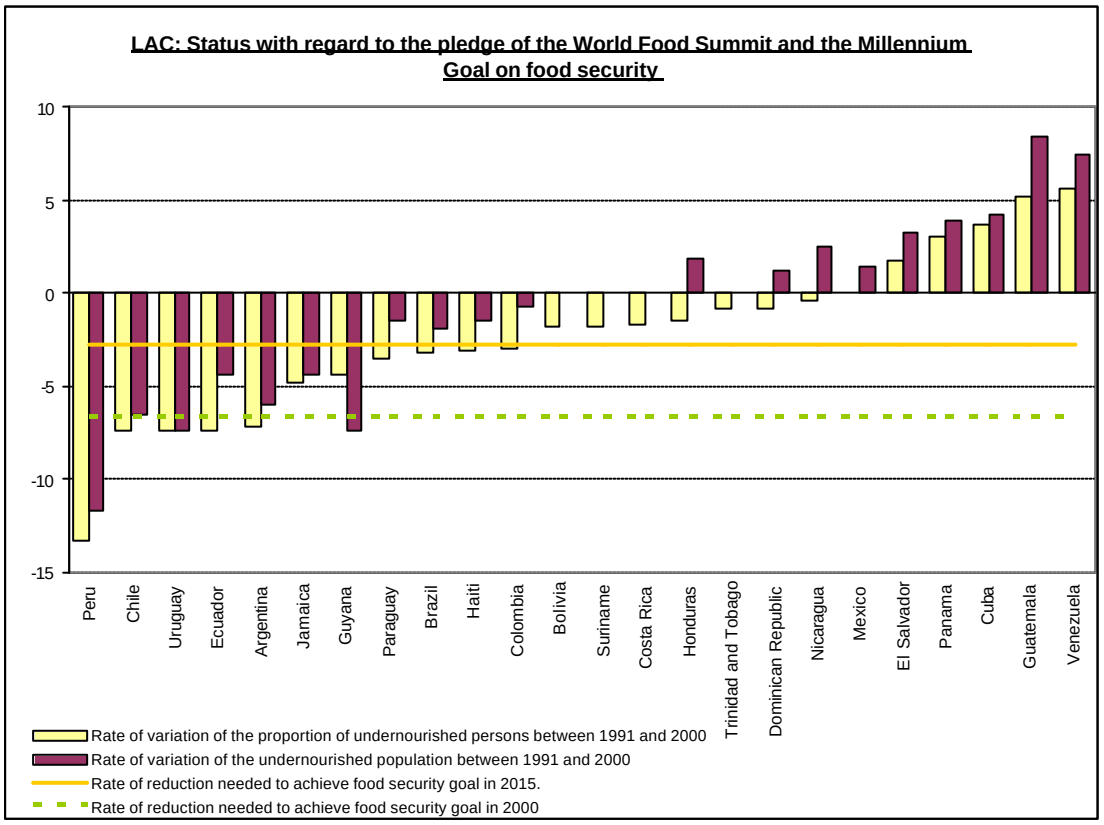



Figure 72