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FEATURED Q&A

How Should Growing Poverty be Confronted in Latin America?

Q Earlier this month, **Rebeca Grynspan, the regional head for Latin America and the Caribbean at the UN Development Program, said the global financial crisis threatens to increase poverty in the region by as much as 15 percent and that smaller countries are particularly at risk. Which countries face the greatest danger of increasing poverty levels? To what extent are international financial institutions and the US in a position to help?**

A **Guest Comment: Nora Lustig:** "The countries that face the greatest danger of increasing poverty levels are those whose economies are more interdependent with the US economy: that is, Mexico, Central America and the Caribbean. Mexico will experience a contraction of economic activity and so will several countries in Central America and the Caribbean. The orders of magnitude are hard to predict because they depend on how long and how deep the recession will be in the United States. Empirical evidence suggests that for each 1 percentage point decline in economic activity, the proportion of poor people can rise between 2 and 3 percent. To mitigate the impact of the crisis on the poor, international financial institutions must provide adequate financing to help countries implement domestic stimulus packages whenever conditions permit and also ensure access to credit for the domestic private sectors. These measures will

mitigate the impact on economic activity and employment. In addition, multilateral financial institutions (MFIs) must help countries implement adequate safety nets for the poor and ensure they are properly funded. The US government can play a key role in ensuring that MFIs have the wherewithal in terms of resources and instruments to address the needs of the countries in the region and in providing bilateral aid for countries that will need access to grants instead of loans, as in the case of Haiti. The US can also help ensure that conditionality

Continued on page 4



Venezuela, China Agree to Spend Billions on Development

Venezuelan President Hugo Chavez (L) and Chinese Vice President Xi Jinping (R) agreed Wednesday in Caracas to several accords, including an agreement to add \$6 billion to a joint development fund. See story on page 2.

Photo: Venezuelan Government.

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NEWS BRIEFS

Regulator: Venezuelans' Exposure to Stanford May be \$3 Billion

Venezuelans may have between \$2.3 billion and \$3 billion deposited with embattled **Stanford International Bank**, Venezuelan banking regulator Edgar Hernandez Behrens said Wednesday, according to Bloomberg News. The amount has not been confirmed, but Behrens said less than 3 percent of Venezuelans have dollar investments outside the country. The Antigua-based bank and its head, R. Allen Stanford, stand accused in the US of fraud involving \$8 billion in high-yielding certificates of deposit.

Banco do Brasil's Net Income Rises 142 percent in 4th Quarter

State-owned **Banco do Brasil** said Wednesday its net income rose to 2.9 billion reais (\$US 1.2 billion) in the fourth quarter of 2008, up 142 percent from the same period in 2007. In an earnings statement, the bank said the results were driven by a one-time gain related to a pension plan and growth in its loan portfolio, which rose 10.8 percent in the fourth quarter. Adjusted net income, which excludes one-off events, dropped 20.2 percent from the third quarter of 2008 to 1.6 billion reais.

Buyers of Brazilian Real Estate Firm Abyara Seek to Reduce Debt

Brazil-based real estate company **Agra Empreendimentos Imobiliarios** and **IPU Participacoes**, controlled by Spanish banker Enrique Banuelos, acquired a 62 percent share in real estate developer **Abyara Planejamento Imobiliario** for 37.9 million reais (\$US 16.2 million), reported Bloomberg News on Wednesday. The two companies plan to reduce Abyara's debt level, currently at 430 million reais, to 180 million reais.

Political News

Ecuador Expels US Diplomat on Accusation of Meddling With Police

Ecuador on Wednesday expelled a US diplomat, accusing him of interfering in the transfer of a senior local police officer, the Associated Press reported. "We are declaring Mr. Mark Sullivan persona-

“We are declaring Mr. Mark Sullivan persona-non-grata.”

— *Fander Falconi*

non-grata," said Foreign Affairs Minister Fander Falconi. "He is the first secretary of the embassy and we are giving him 48 hours to leave the country." Sullivan's expulsion comes less than two weeks after Ecuador expelled another US diplomat, Immigration and Customs Enforcement attache Armando Astorga. Ecuadorean President Rafael Correa accused Astorga of attempting to manipulate police appointments. However, the US embassy said at the time that Astorga had returned to the United States because his appointment ended. [Editor's note: see related Q&A in an upcoming edition of the *Advisor*.]

Man Killed During Rioting on Caribbean Island of Guadeloupe

Month-long rioting on the Caribbean island of Guadeloupe led to the death of a unionist, officials said Wednesday, according to the Associated Press. Jacques Bino, a union member and tax agent was shot Tuesday night near a Pointe-a-Pitre housing project as he attempted to drive home following a meeting with LKP Collective, the group that organized the strike. Demonstrators marched through the streets of Fort-de-France, the capital of the nearby island of Martinique, to honor Bino. French Prime Minister Francois Fillon condemned the murder, and urged rioters to "stop the violence that is traumatizing all of Guadeloupe."

The protests and riots over Guadeloupe's high cost of living have devastated the island's tourism industry as vacationers have fled the island and others have canceled their plans to visit. Demonstrators are demanding a monthly raise of 200 euros (\$US 250) for low-wage workers who now earn approximately 900 euros (\$US 1,130) a month. Overnight Tuesday, looters raided 15 businesses, burned seven others and also set fire to nearly two dozen cars. Police arrested 13 people in the melee. Protest leader Elie Domota urged calm, but said the situation is France's fault. "Thousands and thousands of Guadeloupeans have taken to the streets for a month to alert the state, alert elected officials, alert business owners about the social situation," he said. "It's distressing that every time there are problems on Guadeloupe, there needs to be a death to find solutions."

Economic News

Venezuela, China Agree to Add \$6 Bn to Development Project Fund

Venezuela and China on Wednesday agreed to add \$6 billion to a fund used to pay for joint projects for development in areas including oil production and infrastructure, the Associated Press reported. One objective of the currently \$12 billion fund is to increase Venezuela's oil exports to China, said Venezuelan President Hugo Chavez. "It's part of a strategic alliance, and it serves common interests," Chavez told Chinese Vice President Xi Jinping and other members of his delegation, which is visiting Caracas. Venezuela hopes to increase oil exports from 300,000 to 1 million barrels per day by 2015, Chavez said. Already, Venezuela has put \$4 billion into the fund while China has contributed \$8 billion. Currently, the United States buys approximately half of Venezuela's

Correction

The title of commentator Todd Tucker was misstated in the February 13 edition of the Advisor. He is Research Director of Public Citizen's Global Trade Watch division.



Xi

Photo: Venezuelan Govt.

heavy crude. The South American country has seen China as a way for it to diversify its exports away from the US. China and Venezuela are planning to construct four oil tankers as well as three refineries in China that will be able to process crude from Venezuela. Chinese and Venezuelan officials signed 12 agreements on Wednesday, including accords to construct a Venezuelan plant to produce household appliances and also to share content between the countries' state-run media. Xi and the members of his delegation finished the two-day visit to Venezuela on Wednesday night and headed to Brazil. The Chinese leaders' itinerary in the region also includes visits to Mexico, Jamaica and Colombia.

Company News

Colombia's Uribe Says He Would Welcome Investment from Petrobras

Colombian President Alvaro Uribe said this week that he would welcome help from Brazil's state-run oil company **Petrobras** for energy development projects in Colombia, Dow Jones reported Wednesday. "If a company like Petrobras comes to Colombia, it will be welcomed," Uribe said Tuesday in a press conference after a meeting with Brazilian President Luiz Inacio Lula da Silva. Colombia would accept Petrobras' participation in a refinery project with Colombia's state oil company, **Ecopetrol**, Uribe said. Originally, Swiss firm **Glencore International** won a contract for work to increase output at the second-largest oil refinery from 80,000 barrels per day to 140,000 barrels per day. However, Glencore indicated it was withdrawing from the \$4 billion project because it failed to secure needed financing to upgrade the refinery, near the port of Cartagena. Colombian Mines and Energy Minister Hernan Martinez said Monday that Glencore will sell its 51 percent stake in the refinery back to Colombia.

The Dialogue Continues

What Do the Referendum Results Mean for Venezuela?

Q On Sunday, Venezuelan voters approved a referendum ending term limits for all elected officials, including President Hugo Chavez, more than a year after they voted down a similar referendum. Why was Chavez successful this time? Was the election free and fair? What are the next steps for Chavez and for the opposition?

A Board Comment: Diego Arria: "Chavez is definitely a formidable campaigner, and clearly won this unconstitutional and illegal referendum fighting, in his own words, 'for his political life' since in 2012 he would not have been able to run again. He used all the resources of the state to stay in power, in what the international media described as the most abusive and expensive political campaign ever. Intimidation is always present in Chavez campaigns. In this case, the main argument was that if he lost, all the 'misiones' (social programs supported with Cuban doctors) would be eliminated. In Venezuela, the biggest state capitalist in the hemisphere, where to 2 to 3 million people receive benefits from these programs and about 2 million are on the government payroll, such

arguments were very important. It is true that the opposition forces could have been more effective had they presented a more united front to motivate the more than six million people who abstained. But even with limited resources, more than five million people voted voluntarily against the proposal. It means that out of 18 million registered voters, Chavez won just over six million votes and the opposition just over five. The gap is closing. The opposition needs to develop an alternative proposal with credible leaders to attract the 'non-aligned' voters that could decide the outcome of the next parliamentary elections of 2010 as well as the presidential one in 2012. I would not be surprised if Chavez calls for a 'Constituyente' to bless what he calls a socialist state with the leiv motif of 'Patria, Socialismo o Muerte.'"

Diego Arria is a member of the Advisor board and Director of the Columbus Group.

Editor's note: the above is a continuation of a Q&A published in the February 18, 2009 issue of the Advisor.

Currently, Glencore, Ecopetrol and the Colombian government are in negotiations over the amount of money Glencore



Uribe and Lula (L-R) Tuesday in Brasilia.

Photo: Colombian Government.

will receive for transferring the stake back to Colombia. Uribe's meeting with Lula also included other initiatives for invest-

ment and trade cooperation to mitigate the effects of the global economic slowdown.

IDB Establishes New Loans to Aid Countries After Natural Disasters

The Inter-American Development Bank has established a new \$600 million contingent credit facility to aid countries that are hit with natural disasters, the IDB said Wednesday. The loans are aimed at providing countries with resources to cover financing needs after a disaster "of unusual proportions." Countries would be eligible for loans of up to \$100 million or 1 percent of their gross domestic product, whichever is less.

Featured Q&A*Continued from page 1*

does not become a hurdle in allowing countries to access vital funding or in implementing policies that help them mitigate the impact of the crisis on their economies and the poor."

A **Guest Comment: T.H. Gindling:** "The fallout from the US financial crisis will result in substantial job loss and reductions in income for the poor and near-poor throughout Latin America. Policies to confront the crisis must not only help the poor survive today, but must also help low-income Latin Americans maintain the ability to prosper when the economy recovers. During the severe recession of

“'Conditional cash transfer' programs have not only been successful in reducing poverty, but are also politically popular.”

— *T.H. Gindling*

the early 1980s, many low-income Latin American families responded to falling incomes by delaying necessary health care or pulling children out of school, reducing their ability to earn high incomes in the future. Because of this, a temporary economic crisis resulted in long-term poverty for many. Today, many Latin American governments have in place successful programs that simultaneously provide temporary transfers of cash to the poor along with incentives to maintain health care and keep children in school. These 'conditional cash transfer' programs have not only been successful in reducing poverty, but are also politically popular. President Luiz Inacio Lula da Silva, for example, used the Bolsa Familia program in Brazil as the centerpiece of his successful re-election campaign in 2006. Expanding funding for conditional cash transfer programs in the middle of an economic crisis will be difficult for Latin American governments, especially

in smaller countries that may have few reserves upon which to draw. Most conditional cash transfer programs in Latin America are already partially funded by multilateral or bilateral aid agencies or by NGOs. The international community needs to rapidly expand its financial support for these programs."

A **Guest Comment: Stephan Klasen:** "Latin America and the Caribbean could indeed be seriously hurt by the current global recession. The financial crisis is not so much the problem, however, as these countries have not been seriously exposed to the toxic assets in the US financial markets and are, on the whole, not greatly dependent on capital flows from financial markets. But the region is seriously threatened by the global recession that is currently developing. Here the two most important transmission channels are reduced export prices and volumes from Latin America (particularly primary products, but also manufactured goods), and sharply reduced worker remittances as migrant workers are losing their jobs in the US, particularly in the construction and the manufacturing sectors. Here the small Central American countries are particularly at risk as household incomes and poverty levels depend greatly on these remittance flows. Given the overall macroeconomic environment in most of these countries, there is room for expansionary fiscal policies (and, in the larger, non-dollarized countries, also expansionary monetary policy) to partially reduce the poverty impact of this global recession."

Nora Lustig is the Shapiro Visiting Professor of International Affairs at The George Washington University's Elliott School of International Affairs.

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