

# INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

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## FEATURED Q&A

### How Can Latin American Countries Create Good Jobs?

**Q** The Inter-American Development Bank last month predicted a sharp economic downturn for Latin America in 2009, with IDB Vice President Santiago Levy stating that job creation "will practically stop" in Latin America. What are the potential economic—and political—consequences of no job creation in Latin America in the coming period? What can governments and industries in the region do to create good jobs in this economic climate, and which nations are most likely to succeed?

**A** **Guest Comment: Gerardo Aranda:** "If governments don't do anything to create jobs, it will start a cascade of unemployment resulting in more insecurity for the society. Crime rates will go higher and social dissatisfaction obviously will increase as well. In Mexico, the program President Felipe Calderon is proposing is based on the fact that if we are not going to be getting economic growth from the outside, we will have to do it from the inside. His plan starts with activating the local economy by building new roads, schools in rural areas, and a new factory for Pemex to refine oil and convert it into gasoline. He's pushing for the banks and financial institutions to allow small and medium enterprises (SMEs) to obtain credit to pay debts and/or buy assets to increase production, and so they can go out to other markets like South America, China, or Asian and European markets, and continue with their econom-

ic activity. The SMEs are the companies that hire more than 70 percent of Mexico's work force. If the government can pull off this program where they induce economic growth from the inside—not expecting other countries to buy as much from us but by transforming, investing and deploying jobs here in Mexico—although it obviously won't be enough to bring the economy to the same level we had last year, it will probably prevent us from going into a deeper recession that would eventually break down our economy. I only see a cou-

*Continued on page 3*



### Brazilian Energy Minister Says China Offering to Aid Petrobras

Brazilian Energy Minister Edison Lobao said China is willing to offer a \$10 billion loan to help Brazil develop offshore oil fields. A Petrobras official says talks are "ongoing" between China and the state oil company. See story on page 2.

*File Photo: Agencia Brasil.*

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## NEWS BRIEFS

**Recession Expected to be Latin America's Worst Since 1983**

Next year, Latin America will suffer through its worst recession in more than 25 years as dropping prices for commodities take a toll on export revenues, economists at **Morgan Stanley** said in a note to clients, Bloomberg News reported. The economists said lending will also be scarce, adding that Latin America's economies on average will shrink 0.4 percent in 2009. The report said Mexico's GDP is expected to fall 1.5 percent and Argentina's economy will shrink 2.2 percent.

**Raul Castro to Visit Venezuela in First Official Foreign Trip**

Cuban President Raul Castro will travel to Venezuela this weekend in his first trip abroad since assuming the presidency in February, reported the Associated Press. Castro will attend a summit in Caracas on December 14, which will bring together member nations of the Bolivarian Alternative for the Americas, Venezuelan President Hugo Chavez's regional trade bloc. Beneficiaries of Petrocaribe, Chavez's discount oil program, are also expected to attend.

**House of Jamaican MP Searched in UK Fraud Probe**

A special UK fraud investigative unit on Tuesday searched the house of Jamaican Labor Party (JLP) MP and Minister of State in the Ministry of Transport and Works Joseph Hibbert, reported the *Jamaica Gleaner*. According to the JLP, the investigation relates to alleged "unprofessional conduct in transactions which took place some 15 years ago," although no allegations against Hibbert have been made. Hibbert has denied any wrongdoing.

## Economic News

**Brazilian Energy Minister Says China Willing to Help Develop Oil Fields**

China is offering a \$10 billion loan to Brazil to help it develop offshore oil fields, Brazil's energy minister told local daily *Folha de Sao Paulo*, wire services reported Tuesday. According to Edison Lobao, officials in China said they are willing to loan the money to Brazil's state-run oil firm, **Petrobras**, and are currently in talks with the company. "Conversations with a number of funding sources, including the Chinese development bank, are ongoing," Petrobras investor relations manager Theodore Helms told Bloomberg News. The United Arab Emirates as well as Canadian and Japanese companies have also offered to loan Brazil money for oil field development, according to the Voice of America and the AP. Brazil says it has

“Conversations with a number of funding sources, including the Chinese development bank, are ongoing.”

— *Petrobras official Theodore Helms*

huge offshore reserves that lie beneath the ocean floor, under a layer of salt one kilometer thick. Drilling there requires costly technology. Lobao said crude oil must sell for more than \$30 a barrel to make development profitable. The reserves could contain as many as 14 billion barrels of crude oil, Brazilian officials have said. Later this month, Petrobras is expected to announce a new plan to invest in oil fields.

**Ecuador Seeks Argentina's Support As Default on Foreign Debt Looms**

Ecuador's Policy Minister, Ricardo Patino, met in Buenos Aires with Argentine government officials to seek the country's support for Ecuador's possible default on its foreign debt, Bloomberg News reported. "We are looking for support in Latin

America for the position that Ecuador will be taking in the coming days," Patino told reporters in Buenos Aires. "I can't say what's going to happen. The decision is now in the president's hands." Already,



Patino

File Photo: Ecuadorean Government.

governments of countries including Venezuela and Bolivia say they will support Ecuador if it decides to default on portion of its \$10 billion in foreign debt. On November 15, Ecuadorean officials refused to make a \$30.6 million debt payment. President Rafael Correa said it would use its 30-day grace period to investigate whether its debts were "legitimate." Patino said the loan connected to the payment is rooted in a 1970s military dictatorship. After Correa's decision to withhold the payment, **Standard and Poor's** cut Ecuador's debt rating to CCC-, one step above default. "We're certainly going to have some conflict with bond holders, the majority of whom have made an enormous fortune during these past 30 years speculating and charging usurious interest rates," Patino said. "We have to recognize as well some co-responsibility by our former officials." Patino is calling for better financial regulation by international agencies, saying the global financial crisis is a sign of poor management.

**Argentine President Meets With Russian Prime Minister in Moscow**

Argentine President Cristina Fernandez met Tuesday with Russian Prime Minister Vladimir Putin in Moscow where the two leaders discussed their countries' trade and other economic relations, the Voice of America and wire services reported. Putin said the countries would work together in areas including technology and atomic energy. Fernandez also said she hoped for a loosening of visa restrictions between



Putin greets Fernandez Tuesday in Russia

Photo: Argentine Government.

Argentina and Russia. More than 100 business leaders from Argentina are accompanying Fernandez on her visit, the first trip by an Argentine president to Russia in more than a decade. During the visit, Fernandez and Russian officials are expected to sign a strategic partnership statement as well as bilateral cooperation agreements. They also are expected to discuss Russian oil company **Lukoil's** reported desire to drill off Argentina's coast. Fernandez today is scheduled to meet with Russian President Dmitry Medvedev.

## Political News

### US Resumes Deportations to Haiti, Ending Post-Hurricane Reprieve

The United States has resumed deporting Haitians who are in the country illegally, the Voice of America and the Associated Press reported. The US had given Haitians a reprieve for almost three months after a series of hurricanes raked Haiti, causing nearly 500 deaths and leaving thousands without homes. Nicole Navas, a spokeswoman at US Immigration and Customs

*Immigration advocacy groups say the US is acting inhumanely.*

Enforcement, said the Haitians who are being sent back have been issued final deportation orders and have their travel documents. Immigration advocacy groups say US officials are acting inhumanely by sending Haitians back to dire conditions in their home country, the poorest in the Western Hemisphere. Some

### Featured Q&A

*Continued from page 1*

ple of other economies doing that as well. Brazil is doing something similar, and Chile is obviously pretty well secure. Chile will probably suffer the least amount from this financial crisis. But countries like Venezuela that depend tremendously on oil exports will definitely have a very bad time dealing with the financial and oil crises. Countries like Argentina, which don't depend on oil but rather on agricultural products, have also gone into a deeper recession. I would look closely at Venezuela, Argentina, Guatemala, Bolivia, and to a lesser extent Colombia, which depend either too much on Venezuela or on the American market, which is currently in a recession. Those are the countries that are probably going to have a rough time, at least during next year."

**A Guest Comment: Jacqueline Mazza:** "In recent years, Latin American and Caribbean countries have had a very mixed picture with job creation—some grew without much job creation, some created poor quality jobs but didn't grow in terms of income. Given that this is a financial crisis of largely external origin, it is more likely that job losses will be in

lawmakers in the US want Haitians to be eligible to stay with temporary protected status, which allows citizens of countries undergoing political or economic strife to remain in the US for a limited time.

## Company News

### US Treasury Injects \$935 Million into Banco Popular Under Bailout

The US government, as part of its \$700 billion rescue package, sent \$3.9 billion to an additional 35 banks last week, CNN reported Tuesday. Puerto Rico-based **Banco Popular** received the largest share of the most recent disbursement from the US Treasury, amounting to a \$935 million government investment in the bank's preferred shares. The stock purchase from the

sectors or regions more affected by external trade and commerce such as autos, tourism and transportation services. It is job losses, rather than lack of job creation that could create a more immediate political and social issue. Many countries that have made internal competitiveness changes like Peru, Brazil or

**“It is more likely that job losses will be in sectors or regions more affected by external trade and commerce.”**

— *Jacqueline Mazza*

Colombia may be less affected than those industries or sub-regions with great external exposure, for example, Northern Mexico's manufacturing industry, or those like El Salvador which are highly impacted by remittances. The key to good job creation is improving worker competitiveness while simultaneously helping firms be more competitive (one feeds the other). Countries that

*Continued on page 4*

Treasury represents 2.9 percent of Popular's consolidated risk weighted assets, which stood at \$32.1 billion at the end of June 2008. The US Treasury has allotted \$250 billion of the bailout package to be used for capital investments in banks with the goal of encouraging lending between financial institutions. Under the Troubled Asset Relief Program (TARP), the government has sent \$165.3 billion to 87 banks as of last Friday. Other banks receiving disbursements in the last round were **South Financial Group**, **East West Bancorp** and **Sterling Financial Group**. The Treasury injected more than \$400 million into each bank. Today, a main official of TARP and oversight personnel are scheduled to testify before the US House Financial Services Committee on the Treasury Department's management of the bailout program.

**Featured Q&A***Continued from page 3*

intervene during the crisis to support the training of the workforce to upgrade or reconvert skills will create the best platform for higher quality job creation post-crisis. Countries need to avoid costly interventions with little post-crisis labor market impact (e.g., large infrastructure projects with little job creation) in favor of broader labor market programs that help upgrade the workforce."

**A** **Guest Comment: David Kaplan:** "Because of protective labor laws, many firms will find it too costly to fire workers in spite of the difficult times. In this sense, the labor laws will be partially successful in protecting existing jobs. On the other hand, firms will not be hiring either. Labor markets in the region will essentially freeze. Workers who have jobs will hold on to them, often to the detriment of productivity. Those who are looking for jobs will not find them, unless they are willing to work in the lower-paid informal sector. The absence of labor mobility will prevent labor markets from making necessary adjustments and will prolong the negative effects of the crisis. Instead of trying to protect jobs through measures such as high severance payments, countries in the region might try to protect workers through unemployment insurance. Unemployment insurance provides social protection without restricting worker mobility and without hampering labor productivity. The implementation of unemployment insurance would be

challenging, but the potential benefits are enormous. The World Bank's Doing Business project presents a ranking of labor market flexibility. Bolivia and

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“Those who are looking for jobs will not find them, unless they are willing to work in the lower-paid informal sector.”

— David Kaplan

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Venezuela have inflexible labor markets and will likely feel the effects of the crisis for years to come. Colombia and Chile have comparatively flexible labor markets and should recover more quickly. Chile, which offers modest unemployment insurance, may offer the best social protection as well."

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### What's keeping you up at night?

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