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FEATURED Q&A

What are the Chances for Closer Ties Binding Central America?

Q During a summit in Honduras earlier this month, Central American leaders agreed to work toward adoption of a common passport and regional currency. Leaders also agreed to a 41-point economic plan to help Central America confront the global financial crisis by establishing a regional credit fund and stimulus packages. How likely are these plans to move forward, and how would they affect the countries of Central America? Which countries stand to gain or lose by the adoption of a common currency?

would depend on the amount of sustained political commitment Central American governments can muster, precisely at a time when the electoral machinery in various countries in the region is in movement. This political scenario is also complicated by scarce Central American fiscal resources to produce an effective countercyclical reaction to the crisis. Advancing on this coordination would also require an important element of institutional support and administrative capabilities, a challenge Central American governments—and the

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A **Guest Comment: José Raúl Perales:** "The adoption of a regional Central American economic plan to confront the financial crisis is a move in the right direction. A coordinated response sends a much stronger signal about confidence in government action than what any individual country in the isthmus can achieve on its own. Coordination could enable this group of small, open economies to pool scarce financial resources, thus deepening the process of regional integration that had acquired new impetus through CAFTA. Indeed, Central America's close association with the US economy could be a facilitator of regional financial coordination, to the extent that a common de facto currency—the US dollar—as well as very similar trade patterns and other economic indicators could facilitate macroeconomic coordination. Progress in the proposed initiatives



Argentine President Announces Expansion of Stimulus Package

In a speech to business and union leaders Monday in Buenos Aires, President Cristina Fernandez announced public works spending would now top 111 billion pesos, an expansion of her previous plan. See story on page 2.

Photo: Argentine Government.

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NEWS BRIEFS

Latin and Caribbean Leaders Gather in Brazil for Summits

Leaders from across Latin America and the Caribbean gathered on Monday in northeastern Brazil for a series of summits, which include meetings of Mercosur, the Rio Group, and Unasur, reported wire services. The group of Mercosur nations began meeting on Monday, but failed to agree on a plan to do away with double taxation on goods imported into the trade bloc, reported the AP. The broader two-day Latin America and the Caribbean Summit on Integration and Development (CALC) is slated to begin today, but does not include the US, which typically has played a role in regional summits.

US Kidnapping Expert Abducted in Mexico

A US security consultant who routinely provided negotiation and support for kidnapping cases was abducted in Mexico on December 10, the Associated Press reported Monday. Felix Batista, who was employed as a consultant for Texas-based ASI Global LLC but working under the auspices of his own security company at the time, was reportedly giving talks to police and businessmen in the border state of Coahuila on how to avoid kidnappings when he was seized.

Cuban President Says He's Willing to Discuss US Embargo

Cuban President Raul Castro said Monday that he is willing to talk with US President-elect Barack Obama about the US trade embargo against the island, the Associated Press reported. Castro made the comments after arriving in Brazil for a summit of Caribbean and Latin American leaders.

Economic News**Argentina Announces Expansion of Public Works Spending Plan**

Argentine President Cristina Fernandez on Monday announced an expansion of the public works spending plan her government unveiled last month to help stimulate the economy. The expansion seeks to increase public works spending to 111 billion pesos (\$US 32 billion) from the 71 billion peso plan outlined in November. Fernandez said the plan will increase construction industry employment from 400,000 to 780,000 people, according to

“In the light of changing events, we have to reformulate our plans.”

— Cristina Fernandez

Bloomberg News. "In the light of changing events, we have to reformulate our plans," the president told business and union leaders, according to the *Financial Times*. "We have remodeled, redesigned and increased the level of investment." Fernandez also announced that retirees would receive an additional 200-peso one-time payment later this month, Bloomberg News reported. Approximately 57 billion pesos of the plan would be spent on schools, highways and other projects next year, said Public Works Secretary Jose Lopez. "Through this investment, we want to generate a strong anti-cyclical reaction that will allow us to create more jobs, boost activity throughout the construction sector and give a better quality of life to our people," Lopez said. Argentina already has 71 billion pesos of the plan financed and is currently "working to obtain" the remaining 40 billion pesos. The expansion of the public works plan is the government's latest attempt to battle economic slowdown in Argentina. Fernandez on December 4 announced a 13.2 billion peso stimulus package to help

consumers buy vehicles and home appliances. Last Friday, she announced a 300 million peso plan to aid the tourism industry. In a report released Monday, **Morgan Stanley** said Argentina's economy could slip into recession in 2009. The country has had growth of more than eight percent annually for the past five years. The government is predicting four percent growth next year. [Editor's note: see related Q&A in the December 11, 2008 [issue](#) of the *Advisor*.]

Brazil Could Cut Benchmark Interest Rate Next Month

Brazil's central bank could begin cutting a benchmark interest rate earlier than previously expected, according to a new report from **Morgan Stanley**, Bloomberg News reported Monday. The bank may cut the rate by 50 basis points at four consecutive meetings beginning in January, the report said. Last week, the central bank left the rate unchanged at 13.75 percent, a two-year high. Central bankers had entertained the possibility of cutting the rate to counter slowing growth. Brazil is currently at the beginning of a recession, which is marked by two consecutive quarters of economic contraction. The country could experience no growth next year, Morgan Stanley said.

Political News**Former Ecuadorean President Leon Febres Cordero Dies at 77**

Former Ecuadorean President Leon Febres Cordero, a right-wing head of state who served from 1984 to 1988, died Monday at age 77, the Associated Press reported. Febres Cordero was a colorful leader who toted a gun while president and was called Ecuador's "owner" by his opponents. A supporter, his former vice president Blasco Penaherrera, said, "He's the last caudillo. There won't be any more like him." Febres Cordero had survived three bullet wounds, five heart bypass surgeries and cancer but finally succumbed to complications of pulmonary emphysema caused by his chain-smoking. "My best friends are my cigarettes



Febres Cordero

File Photo: US Gov't.

and my pistols. They don't ask for anything and they're always ready," he told the AP in a 2006 interview. "I'm armed all the time because I've been shot at all my life." Febres Cordero backed free-market economics and won support from another conservative, then-US President Ronald Reagan. Febres Cordero was perennially at odds with Ecuador's Congress and defeated an impeachment attempt by strengthening the military's support for him. He also stopped Supreme Court judges selected by Congress from reporting to their posts by surrounding the court with tanks. Febres Cordero also survived a kidnapping by rebel paratroopers and two military uprisings. After he left office in 1988, he headed his party, the Social Christian party until his declining health forced him to retire from politics in 2002. Febres Cordero also served as mayor of Guayaquil between 1992 and 2000. He was at odds with President Rafael Correa whom he called a "communist." In return, Correa called Febres Cordero "a political dinosaur." Still, Correa declared a three-day national mourning period after Febres Cordero's death. Febres Cordero had four daughters with his first wife, Eugenia Cordovez. His second marriage, to Cruz Maria Massu, produced no children.

Company News

MAN AG to Acquire Brazil's Largest Truck Maker From Volkswagen

Germany's **MAN AG** will acquire the largest truck manufacturer in Brazil from **Volkswagen** in a cash transaction worth approximately \$1.58 billion, Bloomberg News reported Monday. The deal marks the Munich-based company's first major South American investment. On January 1, **VW Truck and Bus**, which is based in Resende, Brazil, will become part of MAN. "MAN has to expand and we

Featured Q&A

Continued from page 1

integration process itself—have been confronting way before the onset of the current crisis."

A Guest Comment: Ricardo Cevallos: "At the risk of sounding pessimistic, Central American leaders have been meeting since the 60s and not much has happened. The economic plan needs financing at a time when it is not readily available, but most of all it needs the political will to carry through with all the 'commitments' made by the regional leaders. They have mentioned as the highlights a common currency and a common passport; these will need regional entities such as a regional immigration authority or a regional central bank. Judging from the past, how many regional entities in Central America have been clearly successful? Some have a better history than others, but in general, the population has not yet felt the region-wide effects from the work of these entities. Standardization of laws and regulations in matters of immigration, education and security have also been mentioned in the plan. If the region adopts similar laws or better yet common laws, this would be a positive boost toward mobilizing resources and business in the region. Changing the regulatory systems in each country towards

already have a very strong presence in Europe, but with very limited growth potential," MAN's president and CEO Hakan Samuelsson told reporters in Sao Paulo. "We are focusing on being present in growth markets, meaning China, Brazil and India." For months, MAN and Volkswagen, which owns 29.9 percent of MAN, had been in discussions about VW Truck and Bus. Volkswagen will still maintain a presence in Brazil as the biggest shareholder of truck maker **Scania AB**. Approximately 139,000 trucks and buses were sold in Brazil this year through November, an increase of 26 percent from the same period last year, according to Anfavea, Brazil's automakers association.

integration seems like a small step, but in the end it could prove to be the positive catalyst needed for integration. A common currency at this point in the region's history is a dream, the differences between our countries are wide, but it would certainly help to increase

“Central American leaders have been meeting since the 60s and not much has happened.”

— Ricardo Cevallos

the growth of intra-regional trade. One currency would also help all the countries if it is done in an organized and well planned manner, in order to allow for adjustments in every country to be implemented before it goes into force."

A Guest Comment: Carlos Imendia: "Many of these goals and measures belong to an economic integration program, and hence are good for the region. Some are part of previous declarations which ended unsuccessfully for political reasons. Now, they appear as a reaction

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Codelco CEO: Copper Prices Will Remain 'Depressed' in 2009

The CEO of Chile's state-owned copper-mining company, **Codelco**, said prices for the metal will remain "depressed" next year and demand will be "stagnant," Bloomberg News reported Monday. During a speech in Santiago, CEO Jose Pablo Arellano also said demand is unlikely to recover before 2010, but added demand should return to normal the following year. In 2007, Codelco produced more copper, which is used in wiring, than any other company in the world. Global economic growth has slowed, leading to less demand and larger stockpiles.

Featured Q&A*Continued from page 3*

to the general environment of crisis. Undoubtedly, the firm commitment to an agenda like this would translate into progress for Central America, but in the past it has not due to a lack of political will. Hopefully, the threats of recession become a new opportunity for action plans geared towards a more homogeneous economic area. Attaining a common

drag down domestic growth next year. The discussion was important given that some of the countries have been slow to effectively address how a decelerating global economy will impact their countries. However, it is very unlikely that these countries will devote significant resources to promote real movement on the proposed regional initiatives in the

“It is very unlikely that these countries will devote significant resources to promote real movement ... in the short term.”

— *Heather Berkman*

currency is part of a process whereby a series of steps have to be completed before, such as levels of fiscal deficit, inflation and tax rates. Convergence on these and other variables is a crucial precondition, a scenario which has to be constructed. It would bring benefits since intraregional trade would not need foreign currency to function, but it will require convincing dollarized El Salvador that a common currency is better than the US dollar. In general, a common currency sets the stage for a more coordinated framework of macroeconomic policies, something that is urgent to reap economic fruits, but in the past has been seen as a loss of sovereignty.”

short term. Most of these countries are facing limited fiscal flexibility and are set to probably increase their debt levels next year, which would complicate a search to find funding sources for a regional credit fund or stimulus package. The issue of a common currency is even more complicated. Most of these countries have maintained relatively prudent economic policies in recent years, an important step to synchronize policy. However, some countries' commitments to the US dollar will clash with ALBA member countries' plans for a joint monetary zone, which will create tricky negotiations down the road.”

A Guest Comment: Heather Berkman: “Well aware of how the international financial crisis and the recession in the US are impacting their countries, leaders of Central America and the Dominican Republic signed an agreement advocating urgent measures to be taken at the regional level in order to mitigate growing economic pressures. The region is extremely vulnerable to the external economic environment, and tightening credit conditions and decreases in growth of tourism, remittances, and exports will

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