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## FEATURED Q&A

### How Will Drought Affect the Economies of Argentina & Uruguay?

**Q** Argentina has been hard hit by a drought that has caused at least \$600 million in agricultural losses in Argentina's Santa Fe province alone, prompting the government to cut export taxes and offer subsidized loans for farm equipment. Neighboring Uruguay has also been hit by the lack of rainfall. How will the drought affect the economies of these agriculture-dependent countries? What can policymakers do with their resources to mitigate the effects of the drought? What political fallout might result?

that it was only about 4 percent. With the government lacking an institutional framework to carry out countercyclical policies, analysts expect zero or negative growth for 2009. In Uruguay, the government declared a national emergency in mid-January and it announced some measures to help small farmers in particular and to relax credit conditions. But the government had a fiscal deficit last year, despite booming conditions, and the fiscal/debt situations are likely to worsen amid the trade and investment repercussions of the global crisis.

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**A** Guest Comment: **Graciana del Castillo:** "After a year-long drought, Argentina reckons that it has lost over a million animals, that crop yields have collapsed and that the farm sector already faces losses of over \$5 billion. The drought has affected its three main exports: wheat, soybean, and corn. The drought has also put a strain on government revenues. For this reason, Argentina's president had resisted declaring a national emergency, which she only did Monday. But the problems of Argentina go well beyond the drought. Controversial government policies, the farm conflict and the global crisis had already affected expectations and investment negatively. Many analysts believe that the National Institute of Statistics and Censuses is also manipulating growth figures. While it estimated growth of 7 percent in 2008, private analysts estimated



### Colombia Says FARC to Blame for Deadly Blast in Capital

Colombian Interior and Justice Minister Fabio Valencia Cossio, who visited the scene of a deadly bombing Tuesday night in Bogotá, called on Colombians to report any suspicious activity to prevent future attacks. See story on page 2.

*Photo: Colombian Government.*

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## NEWS BRIEFS

**Perez Roque: Guantanamo Prison Closure 'Insufficient'**

US President Barack Obama's order to close the prison camp at Guantanamo Bay was a "positive" but "insufficient" action, Cuban Foreign Minister Felipe Perez Roque said Wednesday, the Associated Press reported. Perez Roque demanded during a news conference in Havana that the US return the Guantanamo Bay Naval Base to Cuba. Perez Roque's statement follows a similar demand from Cuban President Raul Castro last week.

**Bolivian Minister Sees Warming in Relations With US**

Bolivian Foreign Minister David Choquehuanca said Wednesday his country hopes to exchange ambassadors soon with US, reported the Associated Press. Choquehuanca said the Obama Administration congratulated Bolivia on carrying out a successful referendum vote last Sunday, a move which he called a "good sign." Bolivia and Venezuela expelled US ambassadors in September, but Venezuela has said the US "will probably have wait some time" to re-establish its ambassador in Caracas.

**Caracas Municipal Workers Shut Out of City Hall**

About 1,000 municipal employees in Caracas have been shut out of city offices occupied since January 16 by supporters of President Hugo Chavez, reported Bloomberg News on Wednesday. Caracas' newly elected opposition mayor, Antonio Ledezma, said an armed group that entered city hall twelve days ago. Members of the group say the occupation is a result of Ledezma's failure to renew contracts for 5,700 service workers employed by the previous pro-Chavez mayor.

## Political News

**Colombia Says FARC Responsible for Deadly Explosion in Bogota**

Colombian authorities blamed the Revolutionary Armed Forces of Colombia (FARC) for a bombing that killed at least two people Tuesday night in Bogota, Bloomberg News reported Wednesday. The blast, outside a **Blockbuster** video rental store in a wealthy section of the

“We condemn in all possible ways such an act of cowardice.”

— *Juan Manuel Santos*

capital, also injured 20 people. "We condemn in all possible ways such an act of cowardice," Defense Minister Juan Manuel Santos said in a written statement. "Terrorism only causes damage to innocent people like the two victims who were killed." The government has offered a reward of as much as 100 million pesos (\$US 43,000) for information that leads

to the arrest of the perpetrators. The bombing was most likely related to extortion, said Santos. Colombian authorities have pledged to increase security in Bogota and will create a new task force made up of police, military and intelligence officials to investigate extortion and terrorism in the city, said Santos. Also, a reactivated anti-terrorism committee will meet every 15 days, Santos added. Santos is also calling on Colombians to report any instances of attempted extortion so that authorities can prevent future incidents. "If these extortion attempts are reported we can stop them," said Santos. "Four out of five extortion cases are resolved favorably for the victims." Interior and Justice Minister Fabio Valencia Cossio arrived on the scene of the bombing minutes after it happened and also called on Colombians to report suspicious activity. "We need the help and cooperation of all citizens so that they report any suspicious movement, any abnormal attitude or activity, to the security agencies," Cossio said. Bogota Mayor Samuel Moreno will participate in a special meeting in order to review security in the capital, said Santos. The explosion happened after a battery-operated device detonated up to 22 pounds of explosives that were placed in a backpack that had been planted in a cash machine adjacent to the video store.

**Featured Q&A**

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Hence, its ability to conduct counter-cyclical policies is restricted by its failing to 'save for a non-rainy day.' Opposition parties are likely to exploit this to their advantage in coming elections."

**A** **Guest Comment: Julio Burdman:** "During 2008, Argentine politics was dominated by the confrontation between the government and agricultural producers. Even though the worst tension dissipated when the Kirchnerist bill to raise export taxes failed in the Senate, the conflict never was resolved. There is no trust between Kirchnerism and the leadership of the rural sector: the Kirchners, who at the time accused the

protest leaders of conspiring against the government, never recognized them as valid representatives, and at the same time, three of the four most well-known rural leaders are now in talks with opposition parties who want them as candidates in elections this October. In this context, the central question is if this still unresolved political conflict between Kirchnerism and the rural leadership will hinder the capacity of the government to act effectively and compensate for the negative effects of the drought. The government's commitment to protecting the sector is low. Even still, due to the demands of the producers, there has been some help and tax exemptions for those affected by the drought, in particular for livestock farmers. But Cristina

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## Economic News

### Costa Rican Officials Concerned Earthquake Will Shake Economy

Costa Rican officials are worried that the 6.2-magnitude earthquake that caused at least 23 deaths and destroyed more than 400 homes may also take a major financial toll on the country, *The Miami Herald* reported Wednesday. The earthquake, centered near the Poas Volcano national park 22 miles northwest of San Jose, was the deadliest quake in Costa Rica since 1991. But the next aftershocks are likely to be economic ones. President Oscar Arias has said economic fallout could total \$100 million. It could take up to a year to repair damaged infrastructure and also to return dairy farms and crops to production, officials said. The World Bank recently approved a \$65 million disaster-aid loan and \$600,000 in international donations have flowed into the country, but Arias said more funds will be needed. "Rebuilding what has been damaged will cost a lot of money," Arias said. More than 1,500 people still remain in tent camps and other temporary shelters. In addition to the homes that were destroyed, more than 600 others were damaged.

## Company News

### Barclays Mexican Unit in Talks to Buy Bolsa Index ETF

The Mexican unit of **Barclays** is involved in talks with the country's Nacional Financiera development bank to purchase its exchange-traded fund that tracks Mexico's Bolsa index, Bloomberg News reported Wednesday, citing Salvador Gomez, the head of Barclays ETF business. "It's our central business, there would be interest from us," said Gomez. "We've had some talks with them, but nothing concrete yet." The Nafrac fund is the largest index fund on Mexico's stock exchange. On January 14, the leader of Nacional Financiera, Hector Rangel said the government development bank may sell the fund "in the coming weeks."

## By the Numbers

*A Monthly Look at Latin American Data by the Dialogue's Claudio Loser*

### Stimulus Packages: How Much Can the Region Afford?



WASHINGTON—John Maynard Keynes, long relegated to history books describing his fundamental contributions to macroeconomics, has returned with a vengeance. Everybody has become a Keynesian, even some of us recalcitrant Friedmaniacs. Fortunately, we now know that in times of crisis, large countries can stick both to government spending stimuli (as Keynes proposed) and an adequately ample supply of money in times of financial implosion (as Friedman discovered).

Latin America has been a fertile ground for Keynesian demand-enhancing measures, Chicago Boys notwithstanding, even if it frequently misunderstood the master. Now at a time of widespread economic crisis, and with large countries seeking to avoid falling into a depression, authorities in the region have been announcing fiscal and credit packages aimed at softening the impact of lower commodity prices and reduced external demand. These measures are being taken on top of significant currency devaluations in many larger countries, with the exception of Ecuador, Venezuela, and to a lesser extent, Argentina.

Several questions arise in this regard: Are the packages large enough to shore up demand? How do they compare to the efforts of other countries? Can Latin Americans afford to do it? The attached table may help elucidate these questions. It lists the recently announced stimulus packages for some Latin American countries, as well as for China, India, the US, Germany and the UK. The numbers are adjusted to reflect what can be expected to be the annual spending in 2009. For example, in the case of China the program will extend for two years, and in the US, the numbers include the unspent portion of the package of October. The table includes numbers for public debt, both total and net of international reserves, to reflect the ability of the countries to finance the increased spending. It does not include, however, the requirements arising from reduced government revenues on account of lower export earnings, which will decline by more than 2 percent of GDP in virtually all of Latin America.

Stimulus Packages: Selected Countries in Latin America and Elsewhere

	Announced Amount of Stimulus	Gross Public Debt	Public Debt, Net of Int'l Reserves
Latin America	\$US billion, annual	Percent of GDP, 2008	
Argentina	3.8	1.2	59
Brazil	16	1	57
Chile	4	2.2	19
Colombia	0	0	39
Mexico	10.8	1.1	26
Peru	3.2	2.5	31
Venezuela	0	0	20
<b>World</b>			
China	300 (586) <sup>a</sup>	7.1	18
Germany	102	2.7	67
Great Britain	30	1.1	44
India	8.3	0.7	58
US	800 (1150)	5.6	38

<sup>a</sup>Estimated expenditure in 2009. Number in parentheses reflects announced total package.

Source: National data, press releases, IMF, Eurostat, author's estimates.

Even with these constraints the numbers are revealing. First, the packages in the region are considerably smaller than those expected to be implemented in the US (6 percent of GDP) and China (7 percent). In the US and Germany, even with high levels of debt

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**Featured Q&A***Continued from page 2*

Kirchner, in the context of the current economic crisis, needs the fiscal income of soybean crops and it seems difficult for her to give that up. In any case, this refers to the question of domestic compensation for farmers; as far as the effects of the drought on the economy, little or nothing can be done against an uncontrollable climatic phenomenon."

**A Guest Comment: Marcelo Fielder:** "The world financial debacle has caused commodity prices to fall by half in the last five months, and if that weren't enough, the worst drought in the past 20 or 30 years has hit the entire southern part of South America. Argentina's agricultural producers and livestock farmers are on the verge of default and the mood is one of profound desperation. The panorama has changed, in less than a year, from one of bonanza to huge losses for businesses. The total amount of grain harvested in the 2007-2008 season was at least 100 million tons. The current harvest is expected to fall between 22 and 30 million tons, and conservative estimates put it at less than 75 million tons. The harvest of wheat dropped from 15 million tons to at least 9 million. The next soybean harvest (the 'green gold' of agricultural countries) will be less than 40 million

tons, compared to 46.2 million tons last year. The situation of livestock sector is no better. In provinces such as Corrientes (in the northern part of the country), and in the southern part of the Buenos Aires province, lakes that have had water for the past 25 years have dried up. A large number of livestock throughout the entire country has died. Prices for animals have dropped due to forced supply because of the lack of food and forage crops. The panorama is gloomy. Although Argentina's agricultural producers are hard workers and independent, they are hoping for extraordinary help from the government, which apparently for political and electoral reasons, it is not ready to give, in retaliation for last year's conflicts."

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**Julio Burdman** is President of the Observatorio Electoral Latinoamericano and Director of the School of International Relations at Universidad de Belgrano in Argentina.

**Marcelo Fielder** is Executive Director of the Sociedad Rural Argentina.

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to GDP, their size and the depth of capital markets allows them, at least in the short run, to increase spending. In China, a very low level of debt and high reserves allows for the proposed effort. In Latin America, the two countries that have announced significant packages are, not by coincidence, Chile and Peru. Both countries have a very low level of net debt, and in the case of Chile, the authorities have been building a successful stabilization fund. Mexico may be in a solid position for a stimulus package, but as is even more the case with Venezuela, will face a significant decline in revenues on account of lower oil prices, thus reducing their margins of action. Argentina and Brazil have announced packages amounting to 1 percent of GDP, about the maximum they can afford given their level of debt. In Argentina additional financing beyond the expropriation of pension funds is limited. In Brazil and elsewhere, both domestic and foreign borrowing is constrained.

In the end, Latin America only has limited room for expansion and many countries have used it. Thus, they will need to rely on the effect of the external stimulus packages and of their devalued currencies. All this is not a good omen for growth; the Latin economies are better prepared, but unfortunately the shock is far greater than at any time in the recent past.

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