

INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Board Member, Banco
del Estado de Chile

Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co.

W. Bowman Cutter
Partner,
E.M. Warburg
Pincus

Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co.

Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors

Dirk Donath
Managing Director,
Eton Park Capital
Management

Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's

Marlene Fernández
Former Bolivian
Congresswoman
and Ambassador

Jason Hafemeister
Vice President,
Allen F. Johnson &
Associates

Peter Hakim
President,
Inter-American
Dialogue

Donna Hrinak
Senior Director of Latin
America Government
Affairs, PepsiCo

Jon Huenemann
Principal,
International
Department,
Miller & Chevalier

James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC

John Maisto
Director,
US Education Finance
Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chairman,
Global Crossing
Latin America

Andrés Rozental
President,
Rozental & Asociados

Everett Santos
President,
DALEC LLC

Shelly Shetty
Senior Director, Latin
American Sovereign
Ratings, Fitch Inc.

FEATURED Q&A

How Will the Caribbean Weather the Stormy Economy?

Q Countries in the Caribbean faced fiscal challenges even during relatively good times for Latin America over the past few years, and the current external crisis adds a downturn in tourism receipts and remittances. Which countries in the Caribbean are better prepared and why? Which nations face the toughest outlook and how bad might it get?

A **Guest Comment: Dan Erikson:** "The Caribbean today faces a challenging economic environment that demands new ways of thinking about how to guarantee the region's continued economic viability and lay the foundation for healthy and prosperous societies—but the present economic landscape appears increasingly bleak. While it is too early to tell how deep the damage will go, the current economic crisis is certain to leave no country unscathed. Cuba has been forced to radically lower its growth projections to 4 percent, which itself is an optimistic projection, and most other Caribbean countries are likely to be even lower. The value of mineral commodities like Jamaican bauxite, Cuban nickel, and Trinidadian oil and gas has plunged, and the outlook for remittances and tourism are weak. The Dominican economy is witnessing downturns in virtually every sector, and the coming drop in GDP will likely surpass the rocky economic crisis that struck in the first part of the decade. Islands that have been heavily

dependent on financial services in recent years, such as the Bahamas and Barbados, are likely to be especially hard hit. In the short term, resource-based strategies do not offer much in the way of long-term prospects. In most islands, agriculture faces limited prospects due not only to the traditional North American and European Union subsidies, but increasingly, as a result of the fierce competition coming from Latin American producers. The loss of preferential access to European markets for bananas and the poor productivity of

Continued on page 2



Peru's Central Bank Unexpectedly Cuts Rate

Peru's central bank, led by its president, Julio Velarde (above), unexpectedly lowered its benchmark interest rate a quarter point. It was the the first rate cut since 2005. See brief on page 2.

File Photo: TV Peru.

Inside This Issue

FEATURED Q&A: How Will the Caribbean Weather the Stormy Economy?	1
In Fifth Hostage Release This Week, FARC Frees Former Lawmaker	2
Raul Castro Arrives in Angola for Three-Day Visit	2
GDF Suez Inaugurates New Hydroelectric Plant in Brazil	3
Banco do Brasil Begins Negotiations to Buy Banestes	3
Capitol Hill Watch: US House Subcommittee Examines Latin American Alliances	3

NEWS BRIEFS

Raul Castro Arrives in Angola for Three-Day Visit

Cuban President Raul Castro on Thursday met with Angolan President Jose Eduardo dos Santos, the Voice of America and Agence France-Presse reported. Castro arrived in the African country Wednesday night for a three-day visit and was expected to talk with dos Santos about strengthening relations between the two countries.

Peru's Central Bank Lowers Benchmark Interest Rate

In an unexpected move, Peru's central bank lowered its benchmark lending rate in an effort to spur economic growth, Bloomberg News reported. The bank, led by its president, Julio Velarde, cut the reference rate a quarter point to 6.25 percent. It was the first rate cut since July 2005. The reduction came on the heels of data showing that the country's economic growth in November slowed to its lowest rate in more than two years.

US to Provide Guatemala \$16 Million for Fighting Drugs

The US government has pledged to provide Guatemala \$16 million to fight drug traffickers, the Associated Press reported Thursday. The money will be used to pay for police officers' and investigators' training and also to strengthen sea and air surveillance, said Guatemalan Interior secretary Salvador Gandara. The money is part of the \$1.3 billion Merida Initiative, a package to provide aid for fighting drugs. The US Congress approved the initiative in June. Between 200 and 300 tons of cocaine transit Guatemala on their way to the United States, according to US Ambassador to Guatemala Stephen McFarland.

Economic News**In Fifth Hostage Release This Week, FARC Frees Former Lawmaker**

The Revolutionary Armed Forces of Colombia (FARC) on Thursday released provincial legislator Sigifredo Lopez, the last politician known to be held by the guerrilla group, the Associated Press

“My companions never deserved to die the way they did.”

— Sigifredo Lopez

reported. Lopez, who had been kidnapped in April 2002, was the fifth hostage to be released this week by the rebels. The FARC is still holding approximately 20 military and police officials. Lopez was handed over to a mission led by the International Red Cross and oppo-

sition Colombian Senator Piedad Cordoba and airlifted to Cali, where he was reunited with his wife and two grown sons. Lopez said he was in good condition. "I'm well, I'm well. Thank you," he told reporters. Lopez, 45, said FARC guerrillas killed the 11 other lawmakers who had been abducted with him. "My companions never deserved to die the way they did," Lopez said. "The FARC massacred them on June 18, at 11:30 in the morning, of 2007." At the time, the guerrillas said Lopez's colleagues died in an incident involving a military group whose identity was unclear. On Thursday, Lopez said he lived only because he had been separated from the hostages who were killed. Colombia's government has blamed the FARC for the killings. Earlier this week, the FARC released former Meta state Governor Alan Jara, three police officers and a soldier. Though Lopez's release was cause for celebration on Thursday, thoughts were also with the 11 lawmakers who were killed. Consuelo Mesa, widow of one of the lawmakers who died, told Caracol Radio that she had mixed feelings. "Not all the 12 have been able to return, only one," she said.

Featured Q&A

Continued from page 1

sugar farms in most islands further limits the prospects for farming. As the old saying goes, 'When the US sneezes, the Caribbean catches a cold.' Now that the American economy is seized by down-right pneumonia, the Caribbean countries will be hard-pressed to keep an even deeper economic malaise at bay."

A **Guest Comment: Anton Edmunds:** "The challenges facing the Caribbean are serious and it appears that all countries will suffer well into 2010. There was a misguided sense in 2008 that the economic slowdown the US would not affect the region but that thinking has clearly proven to be false. In tourism, major hotel developments have stalled because of the collapse of the US banking system and worse yet, there are huge layoffs in major markets such as the

Bahamas. This downturn will be sustained and far worse than the dip experienced post 9/11. For those countries involved in banking, there may be a battle soon to be fought over whether the region has strong enough systems in place to combat fraud. More critically, countries will be under pressure not because of their systems but because there are members of Congress and the administration that want to address US corporate ills through closing Caribbean-based offshoots of American companies. This will translate to less investment. If there were ever a country that one would think could ride out the storm, it would have been argued that it would be Trinidad and Tobago, a major regional energy and financial hub. While that country continues to export products globally, economic growth has slowed significantly, government has had to tighten its belt and last week we may have seen further evidence that this high

Continued on page 4

Company News

GDF Suez Inaugurates New Hydroelectric Plant in Brazil

France's **GDF Suez**, through subsidiary **Tractebel Energia**, on Thursday inaugurated a new hydroelectric power plant in Sao Salvador, Brazil, according to a company press release. The 241 megawatt hydropower plant, which was built in 32 months, was constructed on the Tocantins River between the states of Goias and Tocantins. The plant will generate enough power to supply a city of one million people, the company said. "With the constantly growing demand for electricity in the country, Brazil is at the heart of our group's strategic development in Latin America," GDF Suez chairman and chief executive officer Gerard Mestrallet said in a written statement. "Our portfolio of hydro projects provides an excellent platform from which to pursue profitable and sustainable growth-generating clean energy." The total cost of the project was 307 million euros, of which 37 million euros were allocated for environmental and social programs. Under 30-year power purchase agreements, GDF Suez has already sold the plant's 148.5 megawatt annual average guaranteed output for two billion euros during power auctions in Brazil in 2006.

Banco do Brasil Begins Negotiations to Buy Banestes

Banco do Brasil, which is controlled by Brazil's government, has started talks to purchase **Banestes**, the state-owned bank of Espirito Santo, Bloomberg News reported Thursday. Shares of Banestes jumped 15 percent to 8 reais in trading in Sao Paulo. Banco do Brasil's shares rose 3.2 percent to 14.40 reais. In the past seven months, Banco do Brasil has agreed to acquire **Nossa Caixa**, which was owned by Sao Paulo state, in addition to **Banco do Estado de Santa Catarina** and **Banco do Estado do Piaui**. It also acquired a 50-percent stake in **Banco Votorantim**. Banco do Brasil's acquisitions come as **Itau** and **Unibanco** are merging to become Latin America's largest bank.

Capitol Hill Watch

A Look at US Congressional Activity on Latin America

By Matthew Schewel

US House Subcommittee Examines Latin American Alliances

During a hearing to examine policy options for Latin America under the Obama Administration, a US House subcommittee earlier this week debated the extent to which the US should engage countries that are seen as unfriendly to US interests.

"For us to try to pick winners and losers is an old way of thinking," Rep. Gregory Meeks (D-NY) on Wednesday told fellow members of the House Subcommittee on the Western Hemisphere, as he called for an end to what he termed a "cold-war mentality." Meeks made his comments in response to testimony from Miami-based pollster Sergio Bendixen, who said the US could do little in the current economic situation to help what he called "socialist-coalition countries," led by Venezuela, Bolivia, Ecuador, and Cuba, and should turn its efforts toward the "free market economies" of Mexico, Colombia, Peru, Chile, Dominican Republic and nations in Central



(L-R) Sergio Bendixen, Cynthia McClintock, Eric Farnsworth and Ray Walser testify before the subcommittee.

Photo: Latin America Advisor.

America. "We do not have the economic ... and the political resources to make an impact in the socialist-coalition countries," Bendixen said. "Let's let them be for now."

Rep. Connie Mack (R-FL), the subcommittee's ranking member, expressed an interest in Bendixen's vision of "two Americas" and said passing outstanding free trade agreements with Colombia and Panama would be "a tremendous way for the United States extend our hand to our friends." Rep. Albio Sires (D-NJ) said he too regretted Congress' failure to vote on the Colombia FTA last year, but urged a comprehensive strategy toward the hemisphere. "We have to take a regional approach, because every one of those countries is important," said Sires.

Subcommittee Chairman Rep. Eliot Engel (D-NY) outlined his priorities for US policy: the Summit of the Americas in April, increasing foreign aid, deepening the partnership with Brazil on energy, collaborating with Mexico on security and drugs, increasing engagement with Ecuador and Paraguay and supporting Haiti. Engel said Latin America is deeply concerned with the financial crisis and asked Eric Farnsworth, Vice President of the Washington-based Council of the Americas, what cost-neutral actions the US could take to mitigate its effect on the region. Farnsworth recommended involving Latin American countries in the "process of consultation" with respect to the world financial system, by holding meetings between top-level US treasury officials and their Latin American counterparts and inviting Brazil and Mexico to join the G-8.

During the hearing, Engel also condemned last week's attack on a Jewish synagogue in Caracas, stating that the Venezuelan government must "quickly change its tune with regard to the country's Jewish community." On Monday, Engel and 18 House colleagues sent a letter to Venezuelan President Hugo Chavez urging him "to end the bullying and harassment of the Jewish community in Venezuela and to extend the community the robust protection it deserves."

Featured Q&A*Continued from page 2*

flying economy may be grounded when CL Financial, a major conglomerate, had to be bailed out and divest significant assets. That does not bode well for many other regional companies that may be asset rich but cash poor and the governments who may have to go quickly to their rainy day funds to rescue both them and the flagging tourism industry."

A Guest Comment: Winston Dookeran: "The recent 'bailout' of CLICO and CL Financial, the largest conglomerate in the Trinidad and Tobago will put new pressures on the government's already strained revenues (due to falling oil and gas prices), increase the country's debt and perhaps put pressures on the foreign exchange market. The move can better be described as a 'buy out,' as the state will take governance control of the assets of the group, which includes 55 percent of the shares of Republic Bank, the methanol company and some portions of the media in Trinidad and Barbados. Now the question of parliamentary scrutiny of the regulatory authorities should be placed on the agenda in order to build a process for confidence and transparent governance of the financial sector. Confidence in the financial system will not be helped with the news that the energy sector will have zero growth in 2009 and the outlook looks bearish. Trinidad and Tobago's foreign reserves and relatively small external debt give it a much better buffer than the rest of the Caribbean countries, all of whom are caught in twin deficits in their fiscal and external accounts. With the world recession at the doorsteps of the regional economy, the expectations that Trinidad and Tobago will provide foreign exchange and petroleum to the region looks bleak. Caribbean countries must get ready for difficult times, just when President Obama is expected to visit in April.

A Guest Comment: Elena Viyella de Paliza: "In the Dominican Republic, there is little we can do about the drop in remit-

tances. They depend on employment in developed countries, so only when the unemployment rates in these countries decline will see an improvement in remittances. However, there are some things that we can do and are doing in tourism. Through a joint private and public sector initiative, the industry has been working on a new marketing strategy to attract higher net worth luxury tourism (in other words fewer tourists but higher income) and also trying to maintain similar numbers through more aggressive advertising in non-traditional markets in Europe, such as Russia, in addition to targeting more visitors from France, Germany and Holland. It is also important to note two areas that are favorable for the Dominican Republic. First, we have a stronger banking and better supervised financial system as a consequence of the failure of three banks in 2003, which is an asset in facing these challenges. Second, as a result of the decreasing international food and oil prices there is a reduction in the inflation rate. The Dominican Central Bank has also been reducing interest rates, which should fuel the economy. Nevertheless, like every other country in the Caribbean except Trinidad, we depend on tourism receipts as the main source of hard currency and income, and are therefore facing tremendous challenges as we strive to move forward, preserve employment and mitigate the effects of the economic downturn, specifically in the poorer areas of the country.

Dan Erikson is Senior Associate of US Policy at the Inter-American Dialogue.

Anton Edmunds is Executive Director of Caribbean Central American Action.

Winston Dookeran is the leader of Trinidad and Tobago's Congress of the People party and a former Governor of the Central Bank of Trinidad and Tobago.

Elena Viyella de Paliza is a member of the Inter-American Dialogue and President of Inter-Quimica, Monte Rio Power Corp and Indescorp.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2009

Erik Brand,
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta,
Editor
gkuleta@thedialogue.org

Matthew Schewel,
Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Paul Isbell,
Visiting Senior Fellow

Claudio Loser,
Senior Fellow

Manuel Orozco,
Director, Remittances and Development Program

Tamara Ortega Goodspeed,
Senior Associate, Education

Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at freetrials@thedialogue.org

Latin America Advisor is published every business day, except for major US holidays, by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.