INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

FEATURED Q&A

Will the Global Financial Crisis Threaten Political Stability?

Q CIA Director Leon Panetta said last week that the global economic crisis could threaten political stability in Latin America, particularly in Argentina, Ecuador and Venezuela, prompting an immediate response from Argentina's foreign minister, who called the comments "unfounded and irresponsible, especially from an agency that has a sad history of meddling in the affairs of countries in the region." Panetta later fully retracted his statement. Which countries in Latin America will most likely suffer political fallout from the crisis and why? How will the economic slowdown alter the 2009 election calendar in the region?

A **Guest Comment: Javier Corrales:** "It is easy to understand why the statement touched a nerve. South American countries, and especially Argentina (1989, 2001-02), Ecuador (1996, 2000, 2005), and Venezuela (1989, 1993, 2002) have had episodes of economic crises leading to unrest and even truncated presidencies. Naturally, governments are ultra-sensitive about the prospects of instability, and Panetta's statement inevitably makes them wonder whether the CIA knows something that they don't know. What the CIA and everyone knows is that the region—because of its dependence on commodity exports and portfolio capital—is particularly susceptible. What Panetta may not know is that the connection between economic downturn and political instability is not automatic. There are intervening political variables: the president's approval ratings at the time of the crisis, the ruling party's unity and share of seats in Congress, the opposition's degree of organization, and the strength and political loyalties of labor unions and civic associations. Research on previous crisis episodes is quite clear about the importance of these political variables in mediating the effects of economic crises. Today, the three countries mentioned by Panetta score well on one, and sometimes even sev-

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Obama Approves Spending Bill With Eased Cuba Restrictions

US President Barack Obama, shown signing legislation in January, on Wednesday approved a $410 billion spending bill that includes an easing of some Cuba trade and travel restrictions. See story on page 2.

File Photo: White House.

Inside This Issue

NEWS BRIEFS

US Will Continue Withholding $64 Mn in Aid to Nicaragua

A US government agency decided Wednesday to continue withholding $64 million in aid to Nicaragua over concerns of fraud in the Central American country's November local elections. The Millennium Challenge Corporation, headed by US Secretary of State Hillary Clinton, called on Nicaragua to "demonstrate a clear commitment to democratic principles by taking concrete steps to restore the legitimacy and transparency of Nicaragua's electoral process." The MCC said it would review the suspension before its board meeting in June.

Peru Names Rebolledo New President of Petroperu

The Peruvian government has named Luis Rebolledo the new president of state-owned oil company **Petroperu**, reported local daily *El Comercio* on Wednesday. The post had been vacant since last October, when its president, Cesar Gutierrez, was forced to resign following the "petroaudios" corruption scandal. Rebolledo had served since 2006 as president of development corporation Cofide and is an expert on international trade and finance.

Top Venezuelan Lawmaker to Push OPEC for Oil Production Cuts

An influential Venezuelan lawmaker said Wednesday that he will travel to next week's OPEC meeting in Vienna to push for further production cuts, reported EFE. Angel Rodriguez, who heads the National Assembly's energy and mining committee, said offshore petroleum extraction is not currently profitable in Venezuela due to low oil prices, adding consumer countries' inventories "should be reduced."

Political News

Obama Signs $410 Bn Spending Bill, Including Eased Cuba Restrictions

US President Barack Obama on Wednesday signed a $410 billion spending bill that funds most of the US government's operations through Sept. 30 and also includes a loosening of some Cuba trade and travel restrictions. The Senate approved the bill on a vote of 62-35 after contentious debate. The legislation allows Cuban-Americans to visit relatives more often—annually, instead of once every three years, the *South Florida Sun-Sentinel* and Associated Press reported. Cuban-Americans will also be allowed to stay in Cuba for an unlimited duration. Sen. Bill Nelson (D-FL) supported the bill, but said he had sought assurance that it would not weaken the US embargo of the island. "The US foreign policy toward Cuba is to isolate the Castro regime, but not to prevent families from being able to take care of their loved ones," Nelson told senators. The measure also permits more American relatives of Cubans to visit the island, adding nieces, nephews, cousins, aunts and uncles to the list of parents, children, grandparents and siblings who are already allowed to visit. The legislation also makes it easier for Cuba to finance food and medicine purchases. The loosening of the Cuba restrictions threatened to derail the 1,132-page spending bill. Sen. Robert Menendez (D-NJ) last week objected to the Cuba-related provisions and pulled his support for the legislation. However, Menendez, Nelson and Sen. Mel Martinez (R-FL) said a letter from Treasury Secretary Timothy Geithner, who pledged a narrow interpretation of the Cuba measures, reassured them, *The Washington Post* reported. Menendez and Nelson ultimately voted for the bill, but Martinez voted against it. Geithner said the US would enforce current regulations requiring Cuba to pay in advance for any shipments of food and medicine, *The Miami Herald* reported. "Exporters will still be required to receive payment in advance of shipment and will not be permitted to export to Cuba other than through third-party banks," Geithner wrote in a letter to Nelson and Menendez, adding that only a "narrow

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eral, of these political variables. They each have political weaknesses, but also pockets of political capital. In this sense, these countries might be better prepared politically to handle the crisis than in previous episodes, at least for now. In an economic downturn, one can never rule out the possibility of instability, and all incumbents should worry, but one should not assume that all governments are equally susceptible to similar economic shocks."

A **Guest Comment: Michael Shifter:** "There will doubtless be some political fallout in Latin America from the current economic and financial crisis, but, given the likely lag, it probably won't manifest itself until the region's elections, beginning later this year and running through 2010. It is hard to imagine that marginal or negative growth, cuts in subsidies, massive deficits, and rising unemployment will result in more robust political institutions or healthier democracies. Countries that are especially battered by the crisis—much of Central America stands out—will be at particular risk. Already elevated crime rates could go up even more, and the 'street' will become an increasingly important arena of social and political conflict. Nevertheless, if 'political instability' is understood as a return to military rule or civil wars, then such a scenario is highly improbable and would be widely rejected. Though voters will be influenced by worsening economic conditions the effects will vary. In some countries, there could be a sharp repudiation of incumbents who will get blamed and pay the price for the economic decline, whereas in others the deterioration will only heighten the urgency of the

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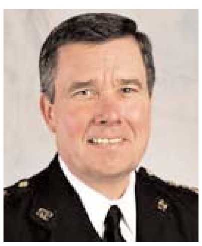
class of businesses would be eligible, under a new general license, to travel to Cuba to market and sell agricultural and medical goods."

US Names New Drug Czar Amid Worsening Cartel Violence

Amid worsening drug violence that is spilling across the US-Mexico border, the administration of US President Barack Obama on Wednesday named Seattle Police Chief Gil Kerlikowske as the new US drug czar. Kerlikowske, who would have to be confirmed by the Senate, would head the Office of National Drug Control Policy. However, Obama is removing the position from his cabinet. During a ceremony to nominate Kerlikowske to the post, Vice President Joe Biden said Mexican drug traffickers pose a serious threat to US national security, Reuters reported. "Violent drug trafficking organizations threaten both the United States and Mexican communities," Biden said. Drug-related killings and kidnappings in the Southwestern United States are on the upswing. As drug czar, Biden said Kerlikowske would improve information sharing, oversee implementation of new technology and also work to have agents intercept more drugs flowing north across the US-Mexican border and more cash and weapons flowing south. [Editor's note: look for related Q&A in an upcoming edition of the *Advisor*.] Since the beginning of last year, more than 7,000 people have been killed in drug-related violence in Mexico. A recent report from the US State Department said guns stolen or bought in the United States account for approximately 95 percent of the weapons used in drug-related killings in Mexico. Kerlikowske has worked in law enforcement for 36 years, the last nine as Seattle's police chief. He is also president of the Major Cities Chiefs Association. Previously, he was police commissioner of Buffalo, N.Y.



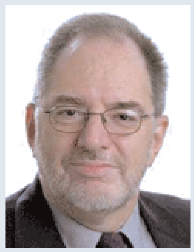
Kerlikowske

File Photo: Major Cities Chiefs Assoc.

By the Numbers

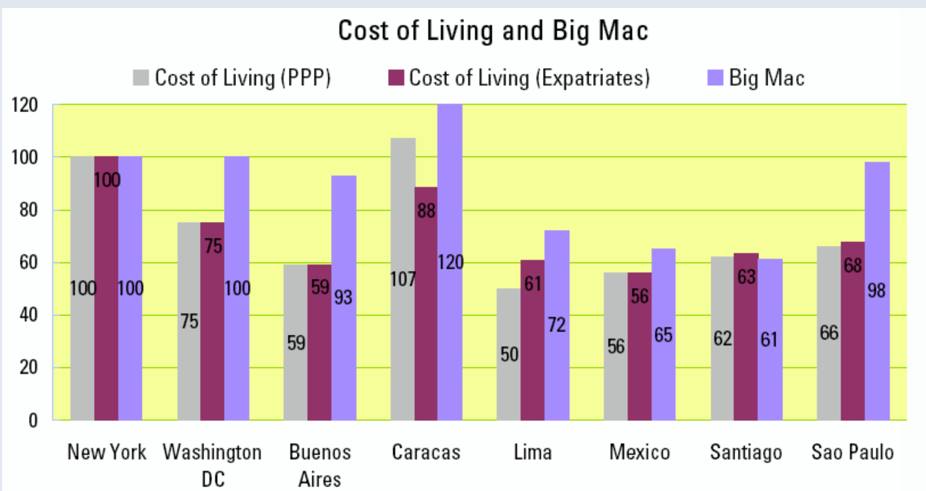
A Monthly Look at Latin American Data by the Dialogue's Claudio Loser

Big Mac in the Americas: Cheaper, But Not Cheap



WASHINGTON—The Big Mac (*The Economist*'s version) is back in this column after only a few months. However, many things have changed since September. This time, I want to review how the region's price competitiveness looks today, less than a year after the world financial crisis started. For that purpose we will provide a price comparison for different cities for the Big Mac (BM); the cost of living for expatriates based on a similar basket of consumption (produced by consulting firm Mercer, and which provides a typical basket of consumer items that is broader than the simple BM); and an indicator of costs based on the Purchasing Power Parity—an index that takes into account a broad set of goods and that reflects consumption patterns of different countries. As usual, we present the regional values in comparisons to New York.

My most recent column on the subject dealt with a longer term series on the BM. This time, the comparison presented in the chart deals with one question: How good is our single and emblematic indicator to measure changes in local conditions? As is frequently the case, the answer is ambiguous but very meaningful. The chart shows the relative cost of a standard basket for expatriates (red), the cost of living based on PPP (gray) and the price of the BM (blue) for January, taking into account current exchange rates, and all compared to New York and Washington. Possible declines in cost of living in New York, the center of the current and violent financial crisis, have not been taken into account.



Sources: IMF, The Economist, *Mercer*

The first observation is that the two consumer basket indices and the price of the BM are much lower in most of the Latin American cities in the sample than in the US, with the clear exception of Caracas. The second observation is that the savings in buying a BM in Latin America compared to the US is much smaller than that of the broader basket. While not shown in the chart, since the crisis started to hit hardest in July, costs in US dollar terms have declined sharply in most of the region, but only marginally in Buenos Aires, and have risen in Caracas. In the end, the regional economies seem to have been able to restore competitiveness after a long period of bonanza and currency appreciation.

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social agenda and help political figures with a more nationalist bent. Ideological uniformity should not be expected. The main concern is that in many situations popular expectations will outrun the capacity of financially strapped governments to deliver, which makes effective political leadership even more fundamental."

> "Popular expectations will outrun the capacity of financially strapped governments to deliver."
> — *Michael Shifter*

A Guest Comment: Mark Weisbrot: "CIA Director Leon Panetta's comments that the global economic crisis could threaten political stability in Latin America, singling out Argentina, Ecuador and Venezuela, is another indication that high-level officials in the Obama administration still haven't decided whether they want to improve relations with Latin America. Thomas Shannon's apology after the fact is a sign of discord within the administration. Panetta's comments were an aggressive attack, especially since the opposition (including media in all three of these countries) is actively trying to undermine the governments of these countries by exaggerating their economic problems and creating fear (none of these economies is even in recession yet). President Barack Obama himself got off to a bad start, with an interview broadcast the Sunday before his inauguration accusing Venezuela of being 'an obstacle to progress in the region' and 'exporting terrorism.' All of the left presidents, including Chavez, Lula, and Evo Morales had welcomed Obama's election and were looking forward to improved relations; Obama's comment, which was more hostile than anything even President George W. Bush had said in his last year or so, dashed some hopes. This is unfortunate, because there would be nothing easier for the Obama administration than turning the page on past hostilities and making a fresh start—every president in the region would gladly cooperate."

Javier Corrales *is visiting scholar at the David Rockefeller Center for Latin American Studies at Harvard University and associate professor of political science at Amherst College.*

Michael Shifter *is vice president of policy at the Inter-American Dialogue.*

Mark Weisbrot *is co-director of the Center for Economic and Policy Research.*

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Finally, if some of the readers of this column want to move to Latin America, they should not base their judgment on the relative price of the BM. If they want to maintain their pattern of consumption, they should focus on the expatriate index, with a similar basket throughout the sample. The price of that basket in our region is lower than in New York and, in most cases, Washington. If the reader is more flexible, and adjusts to the local ways, the savings are even greater. The greatest bargains are in Mexico, now the cheapest, followed by Buenos Aires. If you like ceviche and Pisco, certainly head to Lima. If the magnificence of these cities at low prices is not enough incentive, Santiago and the overpowering Sao Paulo are good bets. Regardless, if you want to escape the center of the tsunami, and you enjoy sparingly the simplicity of a Big Mac, go south. Once there, you may find that salaries are not very high, but you will discover some very good investment opportunities, although not for the short run.

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