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FEATURED Q&A

What Does the War in Iran Mean for Latin America?



Oil markets have been volatile since the United States and Israel launched airstrikes against Iran on Feb. 28. Two F/A-18 Super Hornet fighter aircraft are pictured launching from the USS Abraham Lincoln on March 3 as part of "Operation Epic Fury." // Photo: U.S. Navy.

Q Global markets continue to recoil in the wake of the outbreak of large-scale military conflict on Feb. 28 between Iran, and Israel and the United States in the Persian Gulf. The price of Brent crude oil has increased significantly since the beginning of the conflict, with Iranian military forces announcing the closure of the Strait of Hormuz and the administration of U.S. President Donald Trump signaling that "Operation Epic Fury" could last for several weeks, *The New York Times* reported. What does the conflict mean for Latin America? How are spiking global fuel prices affecting Latin America's largest producers and importers of oil and gas? How will the conflict affect U.S. attention toward other foreign-policy priorities, namely Cuba and Venezuela?

A Yohir Akerman, president for the Latin America region at Guidepost Solutions: "Wars in the Middle East rarely stay in the Middle East, and the current conflict is already sending that signal. Brent crude jumped as military escalation put the Strait of Hormuz—the corridor through which roughly one-fifth of global oil supply moves—at risk. For Latin America, higher oil prices are a windfall for exporters such as Brazil, Guyana, Mexico and Colombia. National oil companies and government treasuries benefit immediately as export revenues rise. Brazil's offshore pre-salt fields and Guyana's rapidly expanding production are particularly well-positioned to capture this upside. Venezuela, however, is the outlier. Despite holding the world's largest proven reserves, sanctions, infrastructure decay and licensing restrictions mean Caracas cannot fully capitalize on higher prices the way other producers

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TODAY'S NEWS

ECONOMIC

Henao Tapped as Venezuela's New Oil Minister

Acting Venezuelan President Delcy Rodríguez on Wednesday named oil engineer Paula Henao as the country's new hydrocarbons minister. The change followed Venezuela's overhaul in January of its oil sector reforms, weeks after U.S. forces' capture of President Nicolás Maduro.

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BUSINESS

MercadoLibre to Invest \$3.4 Bn This Year in Argentina

E-commerce and financial services giant MercadoLibre announced Wednesday that it would invest \$3.4 billion this year in Argentina, 30 percent more than last year's planned spending.

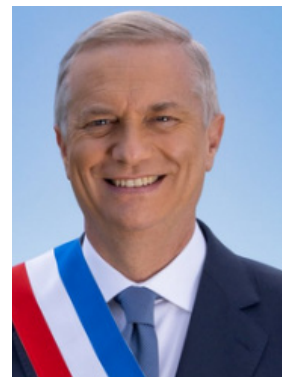
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POLITICAL

Kast Takes Office as Chile's President

Former legislator José Antonio Kast was inaugurated Wednesday as Chile's president, shifting the country's government to the right.

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Kast // File Photo: Chilean Gov't via Wikimedia Commons
CC BY 3.0 CL.

POLITICAL NEWS

Kast Takes Office as Chile's President in Major Shift to Right

Former legislator José Antonio Kast was sworn in Wednesday as Chile's president, moving the country's government firmly to the right following four years under left-wing President Gabriel Boric. After being sworn in during a ceremony at the National Congress in Valparaíso, Kast said in a speech from the balcony at La Moneda Palace in Santiago that Chile has adversaries including "those who have sown terror in neighborhoods," the Associated Press reported. "And those who have entered by violating our borders to commit crimes, exploit others or turn our land into a no-man's land are also adversaries of Chile," he added, the wire service reported. Kast also said his government "will not negotiate" with such foes and vowed to bring them to justice, the AP reported. Demonstrators, both in support of Kast and opposed to him, gathered on Wednesday outside the National Congress in Valparaíso and outside La Moneda Palace in Santiago. The new president's backers waved flags and held signs reading "president of change" and "long live Chile," while his opponents marched and denounced what they called U.S. "imperialism," the AP reported. Kast's government is on more friendly terms with the administration of U.S. President Donald Trump than was Boric. Last Saturday, Kast participated alongside several other Latin American and Caribbean leaders in Trump's "Shield of the Americas" summit in Florida. Kast also praised the U.S. military operation in January that resulted in the capture of Venezuelan President Nicolás Maduro. Tensions erupted last week between Kast and Boric over plans under Boric's outgoing government to construct an undersea cable between Chile and China. The plans led the Trump administration on Feb. 20 to sanction three Chilean government officials. Boric said he had told Kast about the situation before the U.S. imposed the visa restrictions, but Kast said he was never informed, El País reported.

The dispute led Kast to suspend all planned meetings between incoming and outgoing government ministers, a move that was unprecedented in Chile's recent history, the newspaper reported. "We ended the transition process because we don't trust the information being given to us. We require a more thorough audit and more information," Kast said on March 3. Kast also ordered the creation of a task force led by his incoming interior minister, Claudio Alvarado, to gather data from ministries and oversight bodies in order to compile information and compare it to what they received upon taking office, El País reported. [Editor's note: See related [Q&A](#) in Wednesday's Advisor.]

ECONOMIC NEWS

Henao Tapped as Venezuela's New Oil Minister

Acting Venezuelan President Delcy Rodríguez on Wednesday appointed oil engineer Paula Henao to serve as the South American country's next hydrocarbons minister, Rodríguez said in a post on social media site Telegram. Rodríguez had previously served as oil minister for two years before she assumed the acting presidency in January after the deposal by U.S. special forces of Venezuelan President Nicolás Maduro. As oil minister in Maduro's government, Rodríguez had negotiated production-sharing agreements with multiple foreign oil and gas companies, Bloomberg News reported. As acting president, in late January she pushed legislation through the National Assembly that drastically liberalized Venezuela's petroleum sector, with changes including ending state-run PDVSA's control of all joint ventures and allowing for investment disputes to be settled through third-party arbitration, among others. Venezuelan energy planners hope to boost national oil and gas production, which has stalled for decades amid sanctions and underinvestment, and capitalize on surging global fuel prices, Reuters reported. Brent crude oil was trading at \$100 per barrel this

NEWS BRIEFS

Lula, Flávio Bolsonaro Tied in Poll Ahead of Brazil Election

A poll released Wednesday by Genial/Quaest shows Brazilian Senator Flávio Bolsonaro tied with incumbent President Luiz Inácio Lula da Silva in a hypothetical runoff election, Bloomberg News reported. The poll showed the two candidates with 41 percent support, and just 2 percent of voters in the survey said they were undecided ahead of Brazil's general election in October. Flávio Bolsonaro, the eldest son of now-imprisoned former President Jair Bolsonaro, had been polling 10 percentage points behind Lula in December, Bloomberg News reported.

Mexico's Congress Rejects Sheinbaum's Measure for Electoral reform

Mexico's Congress on Wednesday rejected an electoral reform proposed by President Claudia Sheinbaum, the Financial Times reported. The lower chamber voted 259-234 in favor of the reform, falling short of the two-thirds majority needed to pass it. The measure would have reduced public funding for political parties and cut the number of seats in the Senate.

Argentina's TGS to Invest \$3 Billion on Natural Gas Liquids Plant, Pipeline

Argentine pipeline operator Transportadora de Gas del Sur (TGS) said Wednesday that it will spend \$3 billion to develop a natural gas liquids plant and a new mixed-product pipeline connecting the Vaca Muerta shale formation with the port of Bahía Blanca, Reuters reported. The project is set to be completed in 2031 or 2032, the wire service reported. TGS plans to submit the project to Argentina's government for consideration under President Javier Milei's large-scale investment program, RIGI.

morning—up from \$73 per barrel on Feb. 27—as markets continue to react to supply-chain disruption caused by the escalating conflict in the Middle East. On Wednesday, the International Energy Agency (IEA) said its member states would release 400 million barrels of oil-equivalent from national strategic petroleum reserves, including 172 million barrels from the United States, to address the spike in fuel prices. The strategic reserve release is the largest in the IEA's history, executive director Fatih Birol said on Wednesday. Still, it would account for as much as one-third of the volume lost to global markets by the ongoing closure of the Strait of Hormuz, depending on the pace of releases, Reuters reported. Gulf states, nearly all of which have significantly curtailed their production of oil and gas in recent days and weeks, account for some 20 million barrels per day in oil exports.

BUSINESS NEWS

MercadoLibre to Invest \$3.4 Billion in Argentina This Year

E-commerce and financial services company MercadoLibre plans to invest \$3.4 billion this year in Argentina, Chief Executive Officer Ariel Szarfsztejn said Wednesday at an event in New York, Reuters reported. The company, which was founded in Argentina but is now based in Uruguay, plans to create nearly 2,000 jobs in Argentina this year, Szarfsztejn said at the “Argentina Week” event, the wire service reported. MercadoLibre is seeking to hire more staff in the areas of financial technology, e-commerce, technology and shipping, he added. The company currently has about 16,700 employees in the South American country. The amount that MercadoLibre is planning to invest this year in Argentina represents an increase of about 30 percent from the amount that it had allocated to invest in the country last year, Reuters reported. MercadoLibre operates in 18 countries in Latin America, EFE reported.

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can. But for much of the region, the story runs in the opposite direction. Countries that rely heavily on imported fuel—particularly in Central America and the Caribbean—face renewed inflation pressure, fiscal strain and more difficult subsidy choices. Even larger economies such as Chile or Peru, which import most of their energy, will see transport and industrial costs rise quickly. The geopolitical implications may prove even more significant. A sustained Middle East crisis inevitably pulls Washington's strategic bandwidth toward the Persian Gulf. Naval deployments, intelligence resources and diplomatic capital shift quickly when energy flows and regional stability are at stake. The result is less day-to-day focus on the Western Hemisphere. For Havana, that creates strategic breathing room. Sanctions rarely disappear, but enforcement tends to lose urgency when the United States is managing a major conflict elsewhere. Latin America is not a combatant in this war. But as oil markets tighten, inflation rises and geopolitical attention shifts, the region will once again absorb the aftershocks of a conflict fought thousands of miles away.”

A Kimberley Sperrfechter, emerging markets economist at Capital Economics: “Latin America is much less exposed to the disruptions caused by the war in Iran than other regions. In part, that's because its geographic location limits the impact from disruptions to container shipping and airspace closures in the Middle East. More importantly, most major Latin American economies—Brazil, Argentina, Colombia, Ecuador and Venezuela—are net energy exporters, and as such will enjoy a terms-of-trade boost from higher energy prices. Higher energy prices will increase export earnings and domestic incomes and should also lift government revenues through higher tax receipts. That should provide some relief to fragile public finances, especially in Colombia and Ecuador. Most of the

revenue is likely to be saved, so the impact on growth will be relatively muted. Among the major Latin American countries, Chile is most exposed to higher energy prices given that it's a large net energy importer. The crumb of comfort, though, is that the hit from higher energy prices should be partly offset by still-elevated copper prices, and Chile's healthy balance-of-payments position leaves it well placed to deal with the energy price shock. Otherwise, one common theme across the region is that higher oil prices, if sustained, will put upward pressure on inflation. If oil prices remain at around \$100 per barrel, that could add as much as one percentage point to inflation, reversing the recent disinflation progress. Taken together with the fall in currencies since the start of the war, that could prompt most central banks to halt monetary easing cycles and Colombia's to extend its tightening cycle.”

A R. Evan Ellis, senior nonresident fellow at the Center for Strategic & International Studies: “In the short term, the reduction in shipping through the Strait of Hormuz will increase prices. The oil importing countries of Central America and the Caribbean will be most affected. Everywhere, increases in the prices that truckers and taxis pay for fuel, or that families pay to heat their homes and cook food, will add pressure on marginal populations and possibly generate social unrest. The region will likely also face broader, more gradual inflationary effects as higher petroleum prices affect input costs. In key elections this year in Peru, Colombia and Brazil, price pressures may reinforce popular frustrations with corruption, insecurity and other economic problems to benefit right-wing candidates López Aliaga and Fujimori in Peru, De la Espriella in Colombia and Bolsonaro in Brazil. U.S. military operations in the Middle East will not appreciably affect its security engagement in Latin America, although it may delay the administration for some weeks from fully focusing on Cuba

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and Nicaragua, and facilitate the 'normalization' of the criminal regime in Venezuela selling oil through the United States while preserving most of its repressive apparatus and delaying political transition. In the Middle East, the conflict is more likely to fade than end with either a deal or a democratic transition in Iran. The U.S. decimation of Iran's navy and ballistic missile threat will decrease headline-grabbing Iranian attacks against its neighbors and the threat to oil flows through the Strait of Hormuz. Still, persistent terrorism and drone attacks and continuing U.S. and Israeli military action will perpetuate the conflict in Latin American and global politics, as occurred with the war in Gaza, but with more significant economic and political effects."

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "The conflict that began on Feb. 28 between Iran, Israel and the United States has immediate global economic consequences, mainly through energy markets. Because about 20 percent of global oil and gas trade normally passes through the Strait of Hormuz, disruptions there quickly translate into higher prices and economic shocks around the world. For Latin America, the impact is mixed and depends on whether countries are net exporters or importers of energy, as well as on geopolitical dynamics with the United States. Countries that export oil would benefit from higher prices as government revenue and foreign exchange earnings increase. These countries include Brazil, Guyana, Colombia and Venezuela. Energy-importing countries and regions experience the opposite effect: Higher oil prices worsen trade balances and inflation. These are Chile, Peru, Central America and the Caribbean. These nations will experience higher electricity and transport costs, inflation spikes (fuel feeds into food and logistics costs) and increasing pressures on fiscal budgets due to fuel subsidies. For Cuba, it spells surrender—the

regime ruling the island for more than 65 years has no way of surviving this test. Most probably, Cuba will succumb to popular pressures for change. For Venezuela, having effectively become a U.S. protectorate, high oil prices should facilitate the transition into a democratic country."

A **Marta Tawil Kuri, associate professor at the Center for International Studies at El Colegio de México:** "Rising global oil and gas prices are already translating into higher gasoline costs and currency volatility across the region. However, the impact is mixed. Countries like Mexico have a concrete susceptibility due to dependence on imports of refined fuels, while oil import-dependent countries such as Chile, Brazil and Argentina are particularly vulnerable, as fuel-price shocks feed directly into inflation and weaken local currencies against the dollar. Also, food exports to the Persian Gulf countries are being jeopardized by the war; the region's main agricultural trade partners are Brazil, Argentina, Mexico, Chile and Uruguay. Third, Washington would rely more on economic levers rather than overt military presence in Venezuela and Cuba. In Venezuela, the interim president's docility ensures Washington doesn't need to micromanage, freeing bandwidth for the war effort in Iran. About Cuba, Trump said that the plan is to finalize negotiations between Marco Rubio and Havana once the 'Iran mission' concludes. Many imponderables could alter this timeline, but it is not improbable that an agreement with Cuba be reached as a way for the United States to gain time while the war effort in Iran continues. Finally, the United States might use the war with Iran to justify stronger pressure on Latin American governments to 'choose' which side they support, as Trump did during the brief Iran-Israel War in July of last year. Also, he will probably continue to denounce the Iranian presence in the hemisphere and reinforce a militaristic approach in the 'Triple Frontier.'"

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