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FEATURED Q&A

What Does Mauricio Funes' Victory Mean for El Salvador?

Q On Sunday, Mauricio Funes of the FMLN was elected president of El Salvador, ending two decades of rule by the conservative Arena party. To what do you attribute Funes' victory? What does it signal for El Salvador? How will his win affect relations with the United States and other countries in the Americas?

A **Guest Comment: Manuel Orozco:** "The electoral victory confirms the consensus from public opinion polls that the FMLN was the likely winner. This victory can be attributed to primarily the interest among Salvadorans to guarantee alternation of power across parties; second, a serious need to approach social policy; and third, popular support to have Funes as president and leader of the FMLN. The victory represents an opportunity to look into a more constructive and engaged relationship between the US and El Salvador whereby cooperation will need strengthening at various levels, from free trade, migration policy and development assistance to the rule of law. The United States will likely engage in a different relationship with El Salvador, where cooperation and respectful disagreement will shape the relationship distancing from a more acquiescing approach to US interests as it existed during the 20-year Arena rule. This defeat of Arena will invite the party to consider reforms that reflect choices Salvadorans agree upon. The defeat is not an end to the party; on the contrary,

it begins a stage of the party as the opposition with a strong capacity to accommodate to its new role."

A **Guest Comment: Ricardo A. Cevallos:** "Several factors have influenced Funes' victory. First and foremost, his own professional image. As a journalist, he was always perceived as a reporter of facts and someone who questioned Arena from a neutral position, this won him the reputation of being trustworthy in the eyes of public

Continued on page 3



In Retaliation, Mexico Raises Tariffs on About 90 US Products

Mexico's Economy Secretary Gerardo Ruiz Mateos on Monday announced that Mexico would raise tariffs on \$2.4 billion worth of US products in retaliation for a US decision to end a pilot trucking program. See brief on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

In Retaliation, Mexico Hikes Tariffs on About 90 US Products

Mexico announced Monday that it would raise tariffs on approximately 90 US products in retaliation for a US decision to end a program allowing Mexican trucks to carry some goods in the United States, the AP reported. Mexico's Economy Secretary Gerardo Ruiz Mateos said the US decision violated NAFTA. Later in the day, White House Press Secretary Robert Gibbs said the Obama administration recognized Mexico's concerns and would work with Congress and Mexican officials "to propose legislation creating a new trucking project that will meet the legitimate concerns of Congress and our NAFTA commitments."

Cuba's Oil Reserves on the Rise Thanks to Foreign Companies

Cuba's Minister for Basic Industry, Yadira Garcia, said Monday that oil exploration currently underway in its exclusive economic zone in the Gulf of Mexico is yielding "growing" indications of petroleum, reported AFP. Potential reserves are growing thanks to the participation of foreign oil companies including **Repsol, Statoil Hydro, PDVSA** and **Petrobras**, she said. Cuba's probable oil reserves are estimated at 20 billion barrels, according to the report.

Retired Army Officials Assume Public Security Posts in Juarez

A retired army general and a retired colonel took over top security posts in the Mexican city of Ciudad Juarez on Monday, as part of an effort in which the government has sent in 7,000 troops to try to contain the violence, reported the Associated Press. Gen. Julian Rivera Breton assumed the post of public safety secretary and Col. Alfonso Cristobal Melgar took over as police chief.

Economic News**IDB: Remittances to Latin America Likely to Fall This Year**

Remittances to Latin America and the Caribbean are likely to fall this year for the first time in at least nine years, according to a new report released Monday by the Inter-American Development Bank. Remittances have been declining since the fourth quarter of last year and are likely to fall this year for the first time since the bank began tracking the figures in 2000. "While it is too early to project by how much remittances may decline in 2009, this is bad news for millions of people in our region who depend on these flows to make ends meet," IDB President Luis Alberto Moreno said in a statement. In 2008, expatriates from Latin America and the Caribbean sent \$69.2 billion back to



Moreno

File Photo: IDB.

their native countries, a 0.9 percent increase from 2007. The flow of remittances remained flat in the third quarter of 2008 and dropped to \$17 billion in the fourth quarter, a 2 percent decline from the same quarter a year earlier, according to the IDB's Multilateral Investment Fund. In some countries, the totals for January have fallen by as much as 13 percent. "The world is facing its worst economic crisis in recent memory," Moreno said. "Unemployment is rising in industrialized nations. The climate against immigration is becoming harsher. Even exchange rate fluctuations are playing a larger role than before." The global economic crisis, however, is unlikely to lead to large numbers of expatriates returning home, Moreno said. "They change jobs, work longer hours, cut back on spending, move to another city and even dip into savings in order to continue sending money to their families," he said. "Going home is usually a last resort." In a bright spot, the report noted that in the past year, the Mexican peso and Brazilian real have lost value against the US dollar,

meaning dollars migrants send home from the United States have more purchasing power.

Political News**El Salvador's Funes: There Is 'No Reason at This Moment For Fear'**

A day after winning election to El Salvador's highest office, President-elect Mauricio Funes said Monday that his government will be marked by moderation, the Associated Press reported. In an interview with El Salvador's Megavision Television, Funes, 49, added he would build a strong relationship with US

“Nothing traumatizing is going to happen here.”

— Mauricio Funes

President Barack Obama and also work for investor confidence. "Nothing traumatizing is going to happen here," Funes said in the televised interview. "We will not reverse any privatizations. We will not jeopardize private property. There is no reason at this moment for fear." Funes has a difficult job ahead of him in grappling with the global economic downturn, said Casey Reckman, associate director of the Latin American Sovereign Group at **Fitch Ratings**. "El Salvador's economy is feeling the impact of weaker external demand and declining workers' remittances, yet the new government's options for policy response are limited under dollarization and in light of El Salvador's already tight fiscal finances," Reckman said in a statement. "Political collaboration along the lines of recent compromises between main parties to approve multilateral borrowing could be crucial for long-term fiscal financing and restoring investor confidence." Funes has said he would retain the US dollar as El Salvador's currency. Funes' victory Sunday marked the first time a

candidate from the Farabundo Marti National Liberation Front (FMLN) captured the presidency, unseating the conservative Arena party, which has been in power for two decades. During his campaign, Funes compared his candidacy and message of change to that of US President Barack Obama's. During his victory speech, Funes said stronger ties with the United States would be high on his agenda, the AP reported. He also received congratulations from Obama's administration. "We look forward to working with the new government of El Salvador," said Robert Wood, a State Department spokesman. "It was a very free, fair and democratic election." Funes, a former television journalist, has avoided the anti-US rhetoric that has characterized Venezuelan President Hugo Chavez and Bolivian President Evo Morales. Funes takes office June 1. [Editor's note: See related Q&A on page 1.]

Company News

Vale CEO Says More Production Cuts Possible if Demand Keeps Falling

The chief executive officer of Brazilian mining giant **Vale** said Monday that the company could further cut production if demand continues to fall, Bloomberg News reported. "We're always adjusting to demand," Roger Agnelli said in an interview. "If demand gets worse there's always the possibility" of more cuts. In November, Rio de Janeiro-based Vale cut its output of iron ore approximately 10 percent to adjust to slumping demand brought on by the global financial downturn. Vale also slashed output of nickel at its China operations by as much as 65 percent after the company's sales of nickel, used to produce stainless steel, fell 58 percent in the fourth quarter of 2008 from the same period the previous year. Agnelli said that while production cuts are possible, he does not expect any in the "short term."



Agnelli

File Photo: Brazilian Government.

The Dialogue Continues

What Lies Ahead for Relations Between the US and Haiti?

Q Last month, Haitian President Rene Preval became the first foreign head of state to meet with US Secretary of State Hillary Clinton. Preval visited Washington seeking \$75 million to \$100 million in aid, which he said will help create jobs. What lies ahead for US-Haitian relations? What is the significance of Clinton's meeting with Preval? Does the meeting signal growing US willingness to aid Haiti with money and other forms of support??

A Guest Comment: Raymond A. Joseph: "Much attention has been given to the fact that President Rene Preval was the first head of state to meet with Secretary of State Hillary Clinton. But it is also important that during the extremely busy first week of February in Washington, the leadership of the House and the Senate made time to receive President Preval. Speaker Nancy Pelosi and key members of the House met with the president as did Sen. Harry Reid and senators of both parties. Rep. Charles Rangel of Ways and Means had a room full of his colleagues listen to President Preval and to reiterate their support for Haiti. President Preval stayed on message wherever he went, whether with the legislative branch, the executive or the major financial institutions. Haiti had been doing quite well from 2004 to 2007. Inflation had fallen from 40 percent in 2004 to less than 8 percent in 2007. State revenues had increased 98 percent. Security improved dramatically, as our police force went from about 2,500 in 2004 to 9,500 now. All the gains registered until 2007 are threatened by events in 2008. The high cost of food and fuel led to riots in April 2008. Four major storms hit Haiti within three weeks in late August and September. They destroyed infrastructure, ravaged our harvest, killed some 800 people and left thousands homeless.

World Bank President Robert Zoellick assessed the damage at about \$1 billion, or some 15 percent of GDP. On top of all these calamities, international aid to Haiti has been reduced by 47 percent. With projected revenues down and expenditures remaining constant, Haiti is in the unenviable situation of having to cut programs, mostly development

“ Haiti is in the unenviable situation of having to cut programs.”

— Raymond A. Joseph

projects. That's where the shortfall of \$75 million to \$100 million comes in. Thus, President Preval's message: Help us find that money to forestall an explosive situation. From 1994 to the present, he noted, we have had 13 United Nations missions in Haiti. And the price tag of each mission is about \$450 million a year. Wouldn't it be more economical and logical to find \$75 million to \$100 million, instead of planning for another UN mission? Apparently the message of President Preval has not fallen on deaf ears. Within a week of the president's visit to Washington, the IMF came through with a long term loan of \$36.6 million. The visit of various dignitaries to Haiti in recent days and a donors' conference on Haiti to be held next month in Washington are signs that the US and others would like to see Haiti return to the successful path it had taken prior to the catastrophes of 2008."

Raymond A. Joseph is Haiti's ambassador to the United States.

Editor's note: The above is a continuation of a Q&A published in the Feb. 20, 2009 issue of the Advisor.

Featured Q&A*Continued from page 3*

opinion. The FMLN had lost previous elections in part because its candidates were perceived to be extreme-left former guerrillas, something that was exploited against them by Arena. Funes contributed the vote of the moderate left while the FMLN continued to contribute with the extreme left voters. Arena has also done its part to contribute to Funes' victory. After two decades in power, there is much fatigue, and, as with other countries in Latin America, the benefits of good macroeconomic policies have not completely permeated all sectors of society. Additionally, not enough emphasis was placed on the issues that demanded most attention from the public: security and the economy. Finally, with the other parties not participating in the presidential election, the choice was narrowed between the largest political parties, Arena and FMLN. The results are troublesome for El Salvador; the electorate is divided in two almost perfect halves. Fortunately for the country, both candidates in their speeches on Sunday night talked about unity and working for the country and its people. Everyone is aware of the difficult times ahead in light of the international context, but only the future will tell if the half that did not elect Mr. Funes will collaborate. In his victory speech, Mr. Funes specifically stated that his government would work to continue and improve the relations with the United States. If this is a predictor of what his government is going to do, this is good news for everyone since, commercially speaking, the two countries have strong ties. As far as relations with other Latin American countries, well, that at this point remains a question mark."

A Guest Comment: Heather Berkman: "The election followed a closely contested campaign, though widespread public sentiment indicating a desire for change of the governing party, a slowing economy, rising unemployment and Funes' own personal popularity and moderate platform were likely factors that ushered him to victory. The election

signals an important step forward for El Salvador's democratic transition. When he enters office, Funes will face a challenging economic environment and a political situation in which his FMLN party does not hold a majority in congress. Funes and the FMLN will face a steep learning curve, a complex transition and high expectations, which will be difficult to achieve given economic and political circumstances. While Funes has campaigned on a message of change, his administration will be more moderate than anticipated and is expected to

“El Salvador's economy relies heavily on the US and it will be in Funes' interest to carefully manage this relationship.”

— *Heather Berkman*

embrace prudent macroeconomic policy. El Salvador's relations with the US and its Latin American counterparts will probably not substantially change. The Obama administration has remained neutral and reiterated that it will work with an administration of either party. Additionally, El Salvador's economy relies heavily on the US and it will be in Funes' interest to carefully manage this relationship. While El Salvador is the latest in a wave of Latin American countries to elect left of center leaders, it is doubtful that this power change will result in any major shifts in balance within the region, and pragmatic concerns will take precedence over ideological alliances."

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Latin America Advisor

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

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Latin America Advisor is published every business day, except for major US holidays, by the Inter-American Dialogue
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Phone: 202-822-9002 Fax: 202-822-9553

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