

## The Scouting Report: A New Partnership with Latin America

Since his election, President Barack Obama has been courting nations in Latin America, pledging an “equal partnership” on issues such as the global economic crisis, energy and climate change and public safety.

Brookings expert Mauricio Cárdenas, director of the Latin America Initiative at Brookings, and Fred Barbash, senior editor of *Politico*, took questions on U.S.-Latin America relations in this edition of the Scouting Report.

The transcript of this web chat follows.

**Fred Barbash-Moderator:** Good afternoon everyone.

Mauricio Cárdenas is a senior fellow and director of the Latin American Initiative. Formerly minister of Economic Development and Transportation, and director of National Planning of Colombia, his research focuses on international and development economics. He is also the president of the Latin American and Caribbean Economic Association (LACEA).

He is our guest today and will take your questions on U.S.-Latin America relations. Welcome Mauricio.

Let's get started.

**12:30 Mauricio Cárdenas:** Thanks for having me. I'm looking forward to today's questions.

**12:30 [Comment From Shawn]** Can you explain how the current global financial problems have affected Latin American countries? Have they dealt with the crisis better than other countries?

**12:31 Mauricio Cárdenas:** Most of the countries in the region are in a recession, but not in a deep crisis. Interestingly, many are seeing signs of recovery, so probably the worst is over.

**12:32 Mauricio Cárdenas:** The key reason why they are doing better now is that they were able to a large extent to adopt counter-cyclical measures like lowering interest rates and increasing government expenditures.

**12:33 Mauricio Cárdenas:** This sounds obvious and natural to do, but it's the first time in a long time that Latin America has been able to deal in this way with a crisis.

**12:33 [Comment From Erin]** What do you think will happen to commodity prices in the next few months, and how will that affect Latin American economies?

**12:34 Mauricio Cárdenas:** Commodity prices reached a peak in mid 2008, then they declined fast until the beginning of this year. During 2009, they have recovered somewhat, but my sense is that the recent increase was driven by speculative forces rather than an increase in demand.

**12:35 Mauricio Cárdenas:** Therefore, I expect commodity prices to stabilize or slightly fall given the very high inventories in the world today.

**12:35 Mauricio Cárdenas:** This is negative news for most of the Latin American countries.

**12:37 [Comment From Theo]** We often hear Brazil referred to as the "country of the future - and always will be." Do you think its time has finally come and if so how does that affect its role in the region's relations with the United States?

**12:39 Mauricio Cárdenas:** Brazil is doing remarkably well both in terms of its economy and its political stature vis-à-vis the rest of the world. After some very negative economic figures toward the end of 2008, Brazil is recovering fast, showing positive growth in terms of industrial production, retail activity and consumer confidence.

**12:41 Mauricio Cárdenas:** This just shows that Brazil has a large and diversified economy that can offset an external crisis with an increase in domestic consumption. About 20 million Brazilians entered the middle class during the last 5 years. This large number of additional consumers is proving to be very effective in order to keep up growth in key sectors like automobiles and other durable goods.

**12:42 Mauricio Cárdenas:** Of course, with a stronger economy Brazil can also increase its political leverage rather than depending on funding from the IMF and other international financial institutions. Brazil now wants to become a creditor to these institutions.

**12:43 Mauricio Cárdenas:** With a greater representation and voice in the global arena.

**12:47 Mauricio Cárdenas:** Brazil has a bright future but also has many challenges. Equality of opportunities is still a major concern. And the political system is less transparent and effective than desired.

**12:47 Mauricio Cárdenas:** Brazil will have to act on these 2 fronts to truly become a global superpower.

**12:48 [Comment From Doug]** What is the appropriate extent of American intervention in Mexico at the present time?

**12:49 Mauricio Cárdenas:** Thanks for your question. Mexico has been subject to many negative shocks during the past couple of years - starting with the increase in violence, the global economic crisis, and now the H1N1 pandemic.

**12:50 Mauricio Cárdenas:** What is surprising about Mexico is not that these shocks have had an impact, but how strongly and effectively are the Mexican authorities responding.

**12:51 Mauricio Cárdenas:** The health issues to a large extent have been resolved. The economy will show a deep contraction this year which could be as severe as a minus 8% GDP growth. And, the security issues remain a major concern.

**12:52 Mauricio Cárdenas:** But, the Mexicans know that these are the priorities and they are working hard to address these issues in an effective way. However, some of these problems will take time to fix.

**12:53 Mauricio Cárdenas:** And not just that, also important changes in the way Mexican political institutions work. The Mexican congress is dysfunctional because legislators do not have incentives to adopt decisions that look into the long run.

**12:53 Fred Barbash - moderator:** While Mauricio is working on his answer to this question, I'd like to get some opinions from our readers. What issues in Latin America are the most important in relations with the US? How well do you think the Obama Administration is dealing with these issues?

**12:54 Mauricio Cárdenas:** They all have very short-sighted horizons.

**12:55 Mauricio Cárdenas:** The inability to reform the Mexican oil sector, or the unwillingness to provide a more competitive economic environment, is just a reflection of this limitation

**12:55 Comment From Carl Owen]** It seems to me every time we change presidents we have a new policy towards Latin and South America. What would be the one major change in United States policy that would put us on a long-term relationship with our southern neighbors?

**12:56 Fred Barbash - moderator:** Mike has an answer to our reader question -

**12:56 [Comment From Mike]** The illicit drug trade. Cartels are taking over sections of countries in order to move their illicit materials. The administration should be doing more to arrest these cartels and return the hostile lands to their elected government.

**12:57 Mauricio Cárdenas:** Carl, You have a valid point. Every time the U.S. has a new administration there is a lot of talk about revamping the relationship with Latin America. But after a few months, it's business as usual.

**12:59 Mauricio Cárdenas:** During the Obama administration we're seeing some signs of a change in direction. First, Obama went to the summit of the Americas in a "listening mode." And now, with the crisis in Honduras, we're seeing the U.S. questioning their military and the other groups that promoted the coup d'état. And asking for the return of President Zelaya.

**1:01 Mauricio Cárdenas:** So, there is hope that the U.S. will begin a new relationship with Latin America based on respect and collaboration rather than imposition.

**1:01 [Comment From Sérgio Dávila]** About Honduras: do you think that Obama administration is having second thoughts on its first reaction to the coup? What do you think about the story that NY Times run two days ago about former Clinton advisers aiding Micheletti?

**1:02 [Comment From Carl Owen]** To respond to Mike: I think we need to find a way to curb demand in the U.S. It's our addiction that's driving drug business. No customers, no suppliers. And I agree the cartels are a real and dangerous threat to the fragile governments of the region.

**1:03 Mauricio Cárdenas:** This is a good question, Sergio. Many people think that because Zelaya is supported by Chavez that the U.S. is going to change its mind and prevent him from going back to power in Honduras.

**1:04 Mauricio Cárdenas:** But this is wrong. The U.S. will follow the rule of law and will respect the views of the member countries of the OAS. If those views are that Zelaya should return soon that's what the U.S. will support.

**1:06 Mauricio Cárdenas:** Now the problem is that there is a lot of controversy about what the right interpretation of the rule of law in Honduras is. Honduras has a very complicated constitution. And apparently all parties involved violated it. Therefore, I would not be surprised if this situation remains unresolved during the next few months and that the only solution will be to hold elections, which are scheduled for November.

**1:08 Mauricio Cárdenas:** Now having said this I also think that the U.S. will not use economic sanctions against Honduras. Just because past experiences with these types of sanctions are not favorable. And also because it is not clear who will gain and who will lose with those sanctions.

**1:09 [Comment From Hannah]** On Sunday Nicaragua celebrates the 30th anniversary of the Sandinista Revolution. What state is the country, and the revolution, in at this point, in your opinion?

**1:10 Mauricio Cárdenas:** Just as there are many success stories in Latin America (like Chile, Brazil, and more recently Colombia and Peru) Nicaragua is a good example of how things can go wrong.

**1:12 Mauricio Cárdenas:** This is a country with very corrupt political and judiciary institutions where the private sector is exposed to major risks and where the economy has not been able to generate enough employment opportunities for the population.

**1:13 Mauricio Cárdenas:** Donor countries and agencies are very unsatisfied with the effectiveness of their aid (this is particularly true in Europe) and what keeps the current regime alive is essentially the support it is receiving from Venezuela.

**1:15 Mauricio Cárdenas:** The experience of Nicaragua generates fear among the population in the other Central American countries. What we're seeing in Honduras today is just a reflection of this problem. In El Salvador, President Funes has said that his role models are Presidents Lula and Obama - distancing himself from what he sees is happening in Nicaragua.

**1:17 [Comment From Bill]** It seems to me that instead of fearing Latin American integration, we should be welcoming plans like ALBA and the effort to create a Banco del Sur, so that Latin Americans can take greater possession of their own economic development. Do you agree?

**1:19 Mauricio Cárdenas:** The region has to become more independent and of course having stronger financial institutions is part of that. But a bank that does not follow market-based principles or that is intended to push a particular political agenda is not part of the solution.

**1:19 [Comment From Sergio]** On OAS: Chilean newspaper Mercurio reports that the US is less than happy about the performance of secretary Insulza in the Cuban issue and the most recent Honduran issue, and that it won't support his reelection bid. Do you think that this is true? Also, do you think that the institution regain relevance in the last few months?

**1:22 Mauricio Cárdenas:** Latin America is very divided. On the surface, countries are united regarding the Honduras issue. But if one digs deeper, almost irreconcilable differences appear. Insulza has been navigating these waters for some time and has managed to avoid serious confrontations.

**1:23 Mauricio Cárdenas:** Whether he will be able to be re-elected is uncertain and the Honduran crisis is certainly a major obstacle, because it is very easy to alienate some important members of the OAS.

**1:24 Mauricio Cárdenas:** In some sense he would have greater room to maneuver if he wasn't seeking re-election.

**1:25 Mauricio Cárdenas:** Precisely because of that I do not see him or the OAS playing a key role in the current crisis in Honduras.

**1:26 [Comment From Rory]** We're often told that the US can't resume an open relationship with Cuba while it still represses its people, and that revenues from US tourism would be equivalent to funding state terrorism. If we open our border with Cuba before a significant political reform, how would we reconcile American value with implicit support of an oppressive regime?

**1:27 Mauricio Cárdenas:** It's hard to participate in these chats without talking about Cuba! It's such an important thing here in the U.S., but much less in Latin America.

**1:28 Mauricio Cárdenas:** The Obama administration has undertaken important steps in improving the relationship with Cuba. The most significant of those steps is the willingness to discuss the return of Cuba to the OAS.

**1:31 Mauricio Cárdenas:** But the Castro brothers have not responded in a favorable way, so I'm not very optimistic about future progress. Given the political realities here in the U.S. it will be very difficult to lift the embargo unless the Cuban government is willing to reform some aspects of the economic and political institutions.

**1:32 Fred Barbash - moderator:** That's it for today, everyone. Thanks for your great questions. And thank you for Mauricio for this thoughtful answers. Please join us again next week at the same time for another edition of the Scouting Report.