

The region in the context of a deep economic crisis

Living a very different economic situation, a recession and a constriction of the world markets, the populist governments are currently confronted with a tough reality: they are not able any more to go on dispensing money abundantly (money which they do not possess), and now they have to adhere the limits which are set by the reality of their countries. Without the capacity to buy supporters or to isolate themselves from the world markets, they are now faced with the need to balance their budgets and control phenomena like unemployment and inflation while their popularity declines more and more and the very bad results of their economic leadership come to light. But, not only the governments forming part of the authoritarian and populist axis, also all governments of the region are seeing their incomes reduced in the middle of recession, increasing unemployment and poverty. Therefore, they will try to alleviate these difficulties with more social programs and more pressure on the enterprises.



Latinamerican TENDENCIAS wants to offer a balanced panorama of the reality of our region to its readers: being a bi-annual research report, it is not the typical cyclical bulletin- it penetrates the anecdotic to immerse in the tendencies situated above the ordinary point of view- but this does not imply moving to the other extreme which would be a pure and abstract reflection, totally unconnected with the various incidents in the region. Apart from that, this balance refers to the following issues and facts which are to be emphasized: the idea is to connect economic matters with political and social ones. Because of this, we do not present information which is limited to a specific group of countries, but rather information which embraces incidents which otherwise may not be perceived.

The crisis will impact on every country in a different manner: those which have more or less sane calculations regarding their budgets and a less distorted economy will be able to survive this crisis with less sacrifices than those countries which had entered in a swirl of uncontrolled expenses.

We showed in our last edition that the economic situation had changed in a perceptible way in Latin America, since the prices of raw materials began to fall and therefore, the horizon of the economies in the area gets cloudier.

By the end of the first semester, the prices of raw materials were still situated in their

- historical peak, but like various signs had
- indicated, the situation could not continue
- like this for ever. Finally, the economic
- bubble exploded on mid-September, in a
- row of events which predicted a financial
- crisis of an unknown graveness, with very
- serious problems not only in the real estate,
- but also in the financial markets and in the
- manufacturing sectors all over the world.
- The current crisis seems to be the most
- intense since the nearly forgotten
- depression in the 30s during the last
- century, and has already triggered severe
- consequences for the economies in the
- region: the abrupt decline of prices of all
- raw materials- and consequently the
- decrease of the value of the exportations
- and of the fiscal incomes-, the decrease of
- cash remittances sent by the emigrants who
- live in the United States and Europe, strong
- restrictions on international credits, and in
- general a recessive environment which has
- already begun to affect our countries in a
- quite intense way. Nevertheless, the crisis
- will impact on every country in a different
- manner: those which have more or less
- sound budgets and a less distorted
- economy will be able to survive this crisis
- with less sacrifices than those countries
- which had entered in a swirl of
- uncontrolled expenses with governments
- that acted as if oil prices – for instance-
- would always be that high.

- In July and August the main concern of
- many governments was the nearly constant

raise of inflation. But now, with a more deflationary context, the main problem seems to be to maintain the economic growth, not to loose the resources for the credits and to balance the budget in a scenario in which it is possible that the tax collections will decrease in all parts of the area. Inflation will not disappear overnight, and it is possible that it will rise even in some countries, because of the strong tendencies of devaluation which occur at the moment. However, after a calm period which has been capitalized by a few countries, now the main problem will be in every case, how to manage that the growth rates do not decline too much, or that they just don't turn into negative rates. The opportunities will not come back, for sure, and we will have to wait a long time until the local economies are recovered from an impact which in some cases may be devastating.

Furthermore, the new economic situation will represent a very serious threat to the governments which constitute an authoritarian regime. For example, Hugo Chavez in Venezuela, Evo Morales in Bolivia, the Kirchners in Argentina or Rafael Correa in Ecuador all base their popular support upon enormous money transferences to the poorest sectors of society: they implemented a policy of presents, of political expenses without any control and that way banished not only national, but also foreign investors. The fact that these governments will not be able to maintain their budgets in this new situation prevents them from providing higher fiscal concessions for the exporters. Therefore, these governments will be obligated to assume a severe austerity (which is poison for their political system), if they do not change their policy, they will

It was on January 1, 1959, right after the escape of Fulgencio Batista, when the large domination of Fidel Castro Ruz in Cuba started. Now, exactly 50 years after this event, it is advisable to make a break to remember the terrible consequences caused by the Cuban Revolution. The stagnancy, the regress, the perpetual violation of the human rights and the very systematic tyranny are the fruits of the despotic domination of Fidel Castro which the Cubans had to suffer. Without being allowed to leave their country, without possessing the freedom of speech or the freedom of transit in their own territories, the Cuban example should make everyone think on the sad fate of nations governed by a totalitarian regime.

be dragged along by the inflation should they want to keep their expenditure rates printing unsupported money.

This means that the change which the global economy lives at the moment will be reflected in the future as a situation of a lot of tension for several Latin American governments. This fact will weaken the roots of the authoritarian populists and will face them with problems, difficult to solve. Nevertheless, in every specific case we can observe a different panorama, and therefore, it seems very logical to analyze every case in particular. In the following we present a selection of the principal incidents that occurred during this semester.

The cases: 1) *The scenes of conflict* Venezuela

After the defeat in the referendum in December 2007, President Chávez insisted on proceeding the socialist way which was dismissed in the ballot boxes, when the country still was in the middle of the bonanza of the unparalleled oil prices which climbed above \$ 147 per barrel. But towards the beginning of this semester the prices began to decline in a steady manner: by the closure of this edition, Venezuelan oil costs less than \$ 40 per barrel, and all intents of the OPEC to prevent the price collapse did not take any effect.

However, the impact of this situation has still not reached the economy. On the contrary, the government decided to spend (and promise) with both hands to get into a good position for the regional elections, which will take place on November 23.

The electoral race represented an expansion of the governmental advantage, with the proscription of 263 candidates, the open use of public sources for the governmental benefit, intimidations of all kinds and different threats. Indeed, Chávez was on the verge of getting out “the tanks to the streets” in case he lost in the federal state of Carabobo. Furthermore, he threatened the current Governor of Zulia, Rosales, to put him in prison. Despite all these irregularities, including those occurred during the election and the counting of votes, Chavez’ party, PSUV

(United Socialist Party of Venezuela), not only lost the mentioned state governments, but also was defeated in the city of Caracas and in three other important electoral districts: Isla de Margarita, Táchira and Miranda (including a big part of the capital). Even if the opposition did not reach a 50 % of the overall votes, and the PSUV kept 17 of the 22 local governments where elections took place, the results are a personal reversal for Chávez who had put all his prestige to support his party’s candidates. Now, the opposition controls not only the four most important electoral districts of the country, which together provide 77% of the national GDP, and beyond that are living a boom, and a good political moment with a president more and more committed with his capacity to rule like an absolute monarch.

Under these political conditions, Venezuela should get over this difficult situation imposed by the global economic recession, and the abrupt descent of oil prices. The government, needing the price for a barrel to be at \$95 to be able to comply with all its duties, is not able to invest right now in the so called social programs which –like the well known “missions”- mean immense money transfers to the poorest sectors of society. Therefore, for sure the Venezuelan Government will raise oppressions and penalizations of the private sector, trying to extract more taxes, exerting this way even more control, contributing to a consolidation of the recession which is coming closer.

On the other hand, with a system which controls the changes and defines a ridiculous cheap dollar, Chávez will be forced to choose one of the following two alternatives: a) to devalue causing a tough rise of prices, intensifying an inflation which yet exceeds 30%, or b) to go on with the current pattern- or devalue only nominally – making scarcity in the imports so important for Venezuela and therefore entering a period of urgent undersupply, black market and accumulated inflation. The two alternatives mentioned, may result very damaging for the project of Chávez. As we demonstrated, it will be almost for sure a very tough semester for the

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government. It will suffer the fast loss of its political support, the fragmentation of Chávez' party, caused by disagreements about how to handle the crisis and personal conflicts, while the ascendant of various opponents possibly will be revitalized. Chávez reacted in a very predictable way: aggressive, threatening all, and proposing

- to lance a referendum as soon as possible
- to extend his presidential period ad infinitum, before his popularity vanishes
- and the economic crisis can be noticed in all its dimensions.

- The referendum will take place almost for sure during the first trimester this year, and the first polls cast less favorable numbers for the autocratic president: 31 % support, and a rejection reaching about 68%. If Chávez loses the referendum, and nevertheless sticks to power, he would contribute to a very confused and almost chaotic political situation. If he tries to claim a victory based on fraud he could cause violent acts and a severe debilitation of the country. On the contrary: if he wins, it is possible that Venezuela will live in peace, but consolidating a manifest totalitarian system. The Kingdom of Chávez maybe enduring, but the nation will doubtlessly suffer very severe moments in 2009.

Ecuador

- The situation in this country shows some similarities with Venezuela, even if we can observe two important differences: first of all, Rafael Correa is still in a period of high popularity, at the moment he still enjoys the confidence en the majority of the population; secondly, we have to take into account that Ecuador is a less important exporter of oil than Venezuela, and therefore the economic crisis is already knocking on its door.

The referendum on September 28, was won by the presidential adherents with 64%, and after that, Ecuador got a new Constitution. It is predicted that general elections will take place again in 2009. If the actual powers are able to keep their current correlation, they will give the Correa administration a new period and with it a nearly limitless power over the

Nation. The government already possesses an effective control over the majority of the media (after having intervened in several TV channels and radio stations in July), and a legal system which privileges Correa frankly.

So far, Correa has acted far more prudent than Chávez did. For example, regarding his economic policy: he has maintained the dollarization, he did not affiliate to ALBA, ruled by Chávez and so far has conserved the role of the state in the typical pattern of regulation and planning, without nationalizing or expropriating the big enterprises.

However, the fiscal situation of Ecuador is difficult: the inflation touches 10% and the country decided to default on its foreign debts on December 12, staying away from capital markets in a moment when Venezuela is not really able to aid Ecuador. These economic difficulties can unsettle the presidents' power in the following months, like in Venezuela, creating a climate of economic illness which can turn into growing political conflicts.

Bolivia

The situation in Bolivia has been presenting a sort of a tie between the Government and the opposition for a while now. Evo Morales achieved an important political victory in the referendum on August 10, when his office was confirmed with 63% of the votes. At the same time, the prefects and governors in nearly all the local states in the country were confirmed too: the Governor of Santa Cruz received an impressive confirmation of 79%, and similar numbers were achieved by some other prefects of the opposition. Only the two opposition prefects of La Paz and Cochabamba and the one of Oruro, who is a follower of Morales, lost their public office.

After this partial triumph, Morales decided to apply pressure to achieve a new referendum to approve the constitutional project which the constituent assembly ratified without the required two-thirds, but using violent oppressions and threats. During the following months political confrontations took place, including the

blocking of highways, threats of secession, deaths and wounded, until the dialogue between the Government and the opposition started again. Armed groups, affiliated to Evo Morales began to besiege the Congress of the Republic to enforce the accomplishment of the referendum. As it seems at the moment, this referendum is going to take place in January, with a constitutional project which has been modified a lot in comparison with the original and permits Evo Marales to be re-elected again. This way, he could govern the country until 2014, but only after having changed a lot of the articles with socialist or socializing character.

All seems to prove that the most conflictive situations have been ridden out. Nevertheless, the situation is still quite tense and the country suffers from a permanent crisis which will not be easy to overcome, even less in the short run. The most recent polls show that the support of the constitutional project is quite moderate; it is even possible that the referendum generates a negative result for the Government, or a positive result, but of little scope, something that would broaden the divisions within the nation even more. The advance of the critical economical situation will not help to mediate the conflicts.

Nicaragua

The municipal elections on November 9 clearly proved that the Sandinistas still do not accept the rules of a true, peaceful and pluralistic democracy. After a campaign of brutal castigation against the NGOs that are not obedient to the Government, it used a dirty campaign with frankly intimidating tactics, applied by the Council of the civil power (CPC), similar to the groups of pressure ruled by Chávez in Venezuela and Morales in Bolivia. The opposition, led by Eduardo Montealegre, who is the major of the city of Managua, announced that the results of the elections had been manipulated. The government declared their adversaries as defeated triggering some violent incidents, taking part with an open participation of the CPCs. At the end of the last year the situation was still

unsolved, while the country is digressing even more from the pacifistic postures which belong to a liberal democracy. This way, the conflicts go on aggravating.

Argentina

When the very high prices of soy were still very elevated, the Government of Cristina Fernández de Kirchner decided to increase taxes on agricultural exports to a degree which resulted to be similar to expropriation. Due to the intensive reaction following this measure, the Government took the project to the Congress, assuming that the possessed majority would pass the measure without any trouble. However, in an open climate of public non-acceptance, several Senators drifted apart from the Government, and because of the stalemate of the election in the Senate, the Vice-president of the Republic, Julio Cobos, decided to leave his neutrality, and to vote against the government project in the morning of July 17. The tax increases, which were passed by decree in March, were abolished causing a strong decline of the prestige of the President, whose popularity was severely damaged.

The economic recession which is spreading all over the world anticipates severe problems to the incomes of the Government. Therefore, it decided to nationalize the private retirement pension system which counts with assets about 30 billion Dollars. Notwithstanding the plenty of voices against this measure, it had been approved by Congress, on the one hand pushing away the anxieties to suffer a new default of the Argentinean debts, but on the other hand destroying once more properties rights. For the latter, it could be that new investor and the business climate in generally will deteriorate gravely during the next few months. While Néstor Kirchner tries to come back to political power, the opposition is on their way to understand the importance of their unification, to take advantage of the severe decrease of popularity of the President and her spouse.

The President has been lancing a crises package to overcome the current situation

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on the global markets at the end of the last year: stimulating the consumer's power, starting an enormous program of public works, and arranging a doubtful "capital laundry", are amongst the most transmitted. Nevertheless, the only positive aspect is a reduction of the tax burden for middle class incomes, seen that the rest of the crises package has been criticized as confusing, contradictory or impossible to implement. For the short term it does not seem to be possible that the married couple that in reality executes the power in the country can recover some support within the people. But, the opposition is not yet in conditions to present themselves as a homogeneous force, able to benefit from the weakness of *Kirchnerismo*.

Paraguay

When the new president, Fernando Lugo, took the power last August, the long during hegemony of the so called Partido Colorado in Paraguay was finished. Lugo started changing military and police leaders of the country and promising big changes, with a quite populist speech which emphasized on the reallocation of the wealth and the fight against corruption. Organized movements, sometimes armed, have started exceeding their initiatives, by occupying land and creating a climate full of destabilization which can lead this nation to some very important interior confrontations.

Lugo is a former priest who belonged to the most radical wing of the Catholic Church, and could have autocratic ambitions, similar to Chávez and other Governments in the region. However, at the moment, he does not count with a sufficient political backing as if to make his way within the very much divided political panorama in Paraguay.

Colombia

As we mentioned in the last edition of *Latin American Tendencies*, FARC (Revolutionary Armed Forces of Columbia) are currently in a situation of decline which seems to be irreversible. Nevertheless, the development regarding the fight against the *narcoguerrillas* from a

different perspective seems to be threatening: now, intensive oppressions of organisms of the human rights (which probably in their majority express an ideology related to the extreme left) caused a broad campaign against the Government of Alvaro Uribe. General Montoya, who is Minister of Defense, was thus forced to resign his office in November, while the attacks against the President, his relatives and his political team were going on. It is not too difficult to realize that behind this offensive stands a course change in the strategy of FARC, which by realizing their defeat in the military fights, now, take advantages of the international support to achieve the destabilization of the government which destroys them.

On the other hand, the triumph of Obama in the elections of the United States puts new obstacles in the process of the approval of the free trade treaty between the US and Colombia. However, Uribe enjoys a very high popularity, due to his efficient campaign against FARC and it does not seem very likely for this armed organization to achieve a minimum support within the population. Because of the global recession and the lack of a clear line of succession to go on with the politics of Uribe, the panorama for this great nation is quite complicated this year.

Two cases: 2) the most stable nations

What was mentioned before about these seven nations, which are the most conflictive ones in the region, is overwhelmingly balanced by the more quite and normal situation occurring in the rest of Latin America. Certainly, all countries have been affected by the global recession, but it is possible that all this only triggers minor political topics in the nations mentioned below.

The recession has not caused a tendency towards the extremely protectionism and autarky, as it occurred in the thirties. The reasons for this are more promising possibilities for a general recuperation than in former times. But, regarding the other mistake which was made in the past by a big number of countries – the tax increases – strong tensions are possible in the case of

some governments. Not only the populist-authoritarian, but also all governments in the region will be faced with the reduction of their incomes in a recessive environment, with unemployment and poverty. They will try to alleviate these difficulties with more social programs and more pressure on private business. In some case, like for example in **Guatemala**, they already began to travel this dangerous way, in this case, it was because of the intention of President Alvaro Colom to prepare the way for a potential presidency of his wife. Brazil and even Argentina seem to pursue a totally different alternative.

The Government of Lula in Brazil, despite of its left-wing rhetoric, continues displaying economical sensibility for our region. Brazil, as well as Chile and Mexico, among others, stopped devaluating their exchange rates towards the dollar, favoring the corrections, given by the market for the economic problems which are drawing closer.

Moreover, Peru and Uruguay seem to follow the same path as Colombia, Panama and El Salvador.

In other, more punctual cases we observe that:

- In Brazil, the past municipal elections proved the movement towards the moderate right-wing experienced by the country. José Serra, Governor of the State of Sao Paulo, was strengthened for the prospective elections in 2010, even if there is still a long way to go.
- President Lula, due to his efficient economic policy, possesses an enormous popularity which the last polls ranked up to 77%. The most recent decision to diminish taxes as a form of alleviating the impacts of the crisis will result without any doubt, to be very advantageous for Brazil. This way, the consumption will be stimulated without causing a major governmental interference.
- **Honduras** affiliated with the ALBA last August, while President Zelaya was moving towards the left, trying to emulate the South American populists.
- In **Mexico**, the powerlessness of the government towards the war on drug

cartels which causes several deaths daily is appreciated. The climate of violence apparently has escaped from all control. On the other hand, at the end of October, a very soft reform of the energy law was approved leaving the governmental monopoly PEMEX nearly untouched. Only the group of deputies, affiliated to López Obrador, voted against the new rule. The traditional PRI distinguishes itself at the moment as the party with the strongest recovery after two presidential periods in the opposition: it still has a good quantity of electoral regulars, a wide group of deputies and governors and the first option if President Calderón fails in his war against the delinquency, and if the nation enters a severe recession. Enrique Peña Nieto, PRI Governor of the State of Mexico, is currently the person most popular, in regard to the elections of 2012.

- At the same time, **Chile** prepares for the next general elections in 2009. Ricardo Lagos already resigned from the primary dispute of *Concertación*, the governing coalition, leaving the way without obstacles to discuss the candidanship of José Miguel Insulza (leftist) and Eduardo Frei (centre-left). Nevertheless, the victory seems to be more secure for the centre-right led by Sebastián Piñera, who until now leads the polls clearly, possessing twice the electoral intention of the two members of *Concertación*.
- There will be presidential elections in Uruguay and in El Salvador, too. In Uruguay *Frente Amplio*, at the moment in office, debates about who should be their candidate: either José Mujica, who is more leftist and counts with more support within the party, or Danilo Astori, who could obtain more support from the centre. At the moment, it is not easy to tell how this discussion, which is even more complicated for the Uruguayan electoral system, will end.
- In El Salvador, on the contrary, all seems to point out that the current major of San Salvador, Mauricio Funes, member of the FMLN, could assume finally the

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presidency. Being a moderate, but at the same time a representative of a left-wing movement, Funes has achieved to take advantage of his administrations achievements and the gradual falling of the ARENA Party which has been maintaining power for lots of years now.

• **Conclusion**

• We mentioned in earlier issues of *Latin American Tendencies* that the reversal of Hugo Chávez in the referendum of December 2007, as well as the constant defeats of the Colombian FARC marked the end of the expansion of the populist-authoritarian axis which grew a lot in Latin America during the last years.

• What happened in 2008 confirms this affirmation and marks apart from that a very important decay of this political tendency in some places, even if still in others (like Ecuador) still keeps its period of economic growth. With a very different economic situation, with recession and reduction of markets all over the world, the populist governments are facing at the moment the tough claim of reality: are not able any more to go on dispensing money abundantly (money which they do not possess), and now they have to adhere the limits which are set by the reality of their countries. Without the capacity to buy support, or to isolate themselves from the world markets, they are now faced with the need to balance their budgets and control phenomena like unemployment and inflation while their popularity is

declining every more and the very bad results of their economic leadership.

If the first semester of 2009 is announced to be in general a period of crisis, this should not be understood as if all the governments of the region will be suffering the same impacts in their economies and the same political problems. It is very possible that Chile, Colombia, Brazil and Peru emerge even stronger from these challenging months, but other countries, on the contrary will be facing without any doubt a severe dilemma: it is very possible that, if we take Ecuador as an example, several populist governments decided to suspend the payments of their external debts, to deepen the climate of confrontations, or because of the mere scarcity of resources to fulfill their duties. When writing this edition, the most probable defaults are Bolivia, Venezuela, Nicaragua and, maybe Argentina, for whose government nationalized pension funds will not be enough. Intensive political convulsions cannot be excluded, in particular Bolivia and Venezuela with their respective referendums, could enter in a climate of intensive confrontation. The attempt to broaden the populism at Honduras, Paraguay and Guatemala will be affected by the lack of recourses which will affect certainly these governments; Mexico and Costa Rica, on the other side will be confronted with difficult times, while Uruguay and El Salvador will focus on their electoral processes which are converging in these countries.

With a very different economic situation, with recession and a reduce of markets all over the world, populist governments face a hard claim from reality: they will not be able to keep on spending freely.