

## **An Economic and Political Analysis of Latin America**

Latin America is currently undergoing an economic boom never seen before. However, it's important to take a step back and put everything into perspective. It is quite likely that this economic boom will end within the next few years. Slowing world growth, slowing demand from China, overheating economies, structural challenges and so on will cause the Latin American economies problems within the next few years. In previous times this would be cause for concern. However, the Latin Americas economies of today are a lot more balanced and sound than in previous years. So Latin America will slow down but it won't go backwards. It will stabilize its growth and develop the more common growth rates of 3 - 5% with typical cycles.

But what is clear is that Latin America as a whole has profoundly changed for the better. For the past 25 years it has slowly being building a strong economic framework built around strong institutions and a strong regulatory framework. This has been enabled by having many hard lessons to learn from, a new generation of well-educated pragmatic leaders and policy makers and a favourable geopolitical environment beyond the cold war and extraordinary global growth.

Latin America is free of many of the social problems that afflict other regions. There are no major military conflicts between countries, there is no disease or famine, birth rates are rising, and it has an abundance of raw materials and commodities from food stuffs to oil. There are issues of concern such as indigenous tension particularly in the Andean countries, the continuing problem of the drug war and the fact the Latin America still has one of the most unequal societies.

So, there will no doubt be a difficult few years ahead as the region try's to adapt to lower growth after 10 years of incredible economic activity, particularly in Brazil. But the regions strong economic, political and social frameworks should ensure that the future will be very positive in the 21<sup>st</sup> century.

### *Note on statistics used*

All statistics used are for the year 2010 and from the World Bank unless otherwise specified.

All GDP stats are current at official exchange rates

Public debt is measured as a % of GDP.

N/A signifies where no information was available

FDI is net

Ease of doing Business is from the World Bank Ease of Doing Business Report 2010

Credit Ratings information is from Standard & Poor's.



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## Argentina



### Overview

Argentina is the second biggest country in South America, slightly smaller than India though it only has a population of 40 million. It has Latin America's third largest economy after Brazil and Mexico. It borders Chile, Bolivia, Paraguay and Brazil and has a long-standing dispute with Britain over sovereignty of the Falkland / Malvinas Islands. Once one of the world's richest countries, Argentina has traditionally being one of the region's more equitable societies with a large middleclass, though years of poor economic management has seen increasing inequality. It has no ethnic or secessionist conflicts within its borders and remains one of Latin America's safest countries.

Argentina returned to civilian rule in 1983 after a bloody seven year military dictatorship. The country is defined as a federal republic by the constitution of 1853. Power is distributed between a federal government, 23 provincial governments plus the Autonomous City of Buenos Aires, and 511 municipal governments (known as departamentos, except for the 135 in Buenos Aires state which are known as partidos). The federal government is located in the autonomous city of Buenos Aires (also known as the Federal Capital) and is by far the most powerful of the three levels of government in Argentina. It is run by a president elected every four years with an incumbent allowed to seek one consecutive term. The presidency has in the last two decades come to exert overweening influence over the other two branches of the federal government – the legislature and the judiciary.

### Political

The current president is Cristina Fernández Kirchner of the Justicialist (commonly called Peronist) Party. The first woman elected president in Argentina, she was sworn in on December 10th 2007 and is set to be re-elected to a second term in October 2011 which will run until December 2015. She owes her position to her predecessor and husband Néstor Kirchner who orchestrated her 2007 victory and remained the central political force in her government until his sudden death in October 2010. Though deeply divided into various factions organised by region and around personalities, the Peronists have ruled Argentina for all but two of the last 22 years. Though with no significant base of their own within the Peronist Party on Néstor's assumption of the presidency in 2003, the Kirchners have used emergency presidential powers granted by the congress at the height economic crisis of 2001-'02 to build their political power.

They use discretionary control over much of the federal budget to discipline provincial governments and tame congress and today there is no political opposition able to confront the Kirchner administration at a national level. Since the crisis of 2001 Argentina under Peronist rule has drifted towards a soft presidential authoritarianism. Néstor Kirchner packed the Supreme Court with Kirchner appointments and extended presidential control over other levels of the judiciary. Congress is divided into numerous micro-factions which the government fashions into majorities using patronage. The presidency uses its discretionary control over much of the federal budget to

subordinate provincial governments who in turn direct their congressional delegations to vote with the government.

Under the Kirchner administrations economic policy has been protectionist with heavy government intervention to redistribute export earnings from agricultural commodities to other sectors. There are also persistent government efforts to control prices, keep down the value of the peso and erect barriers to keep imports from competing with local manufacturers. One result has been the return of persistent high inflation and capital flight. A lack of access to international capital markets since the default of 2001 has seen the government employ unorthodox means of securing financing such as in 2008 when it nationalised the country's private pension system. The difficulty of enforcing contracts means direct foreign investment lags behind strong economic growth which is largely driven by high commodity prices and Brazilian demand for manufactured goods.

Within the federal government there are no rivals to the power and authority of President Cristina. Under the Kirchner administrations cabinet government has been abandoned. The Kirchners' closest confidants have been the powerful planning minister Julio de Vido and Néstor's sister Alicia Kirchner who is Social Development minister. Economy minister Amado Boudou is President Kirchner's vice-presidential candidate in October's elections but has little base or influence of his own within Peronism and owes his rise to displays of blind loyalty to the Kirchners. More influential in economic policy is the secretary of domestic trade Guillermo Moreno. The powerful boss of the Peronist CGT trade union confederation Hugo Moyano has a close, at times competitive, relationship with the president.

Corruption accusations against the Kirchner circle are multiple and persistent but given the presidency's dominance over the judiciary investigations make little progress. Critics, especially the media but also financial institutions, have been targeted and threatened with fines or legal action. Argentina has a long tradition of presidential authoritarianism and many sectors – rural, industrial, trade unions – have grown accustomed to negotiating directly with the presidency and looking to it to mediate conflicts rather than rely on the courts or the congress, a political culture that reinforces the position of the presidency. (The reliance on a strong presidency is now such that a weak politician who becomes president will not see out his or her elected term, as occurred in 2001 when Fernando de la Rúa fled office just two years into his term).

The main right-wing opposition to the Peronists comes from Mauricio Macri, currently head of the city government in Buenos Aires. He poses as the standard bearer for a new modernising, centre-right in Argentina but is viewed with suspicion by broad sectors of the population because of his family name. He is the eldest son of businessman Francisco Macri who made his fortune in the protected economy of the 1960s and 1970s as much thanks to his contacts in government as to any entrepreneurial skill. The Macri fortune was preserved by the last military dictatorship when all its debts were nationalised. Macri failed to shine in his father's business before going into politics. Even many on Argentina's socially conservative right view him with suspicion because of his three marriages.

Argentina's left-wing has failed to break out of its several provincial ghettos and instead many left-wing politicians have instead preferred to work with the Kirchners thanks to their decision to reopen prosecutions of military officers for crimes committed during the last dictatorship. The Radical Party

which was the traditional democratic rival to the Peronists disintegrated with the crisis of 2001 and is now reduced to several provincial rumps, several allied to the Kirchners.

Some of the most persistent opposition to the Kirchner administrations has come from Peronist governors in the provinces of Cordoba and Santa Fe, whose traditional importance and wealth from the boom in agricultural policies allows them a certain degree of autonomy from the federal government. But in many of their aspects these provincial governments replicate many of the features of Peronist rule at the federal level. Poorer provinces are today heavily dependent on transfers from the federal government and this has resulted in many becoming loyal members of the Kirchner coalition, whether they are Peronist, Radical or a provincial grouping.

The dependence on federal government transfers is even more marked among poor municipalities. The Kirchners have used this dependency to build a rock of support in the poor rustbelt of Greater Buenos Aires where about a quarter of all voters live. In return for federal transfers, Peronist mayors have ensured high turnouts in Greater Buenos Aires for the Kirchners and their candidates. Given that the population of Greater Buenos Aires alone is greater than the 16 smallest provinces this has given the Kirchners near complete control over the political system.

## **Economic**

The economy of Argentina is Latin America's third-largest, with a high quality of life and GDP per capita. An upper middle-income economy Argentina has a firm foundation for future growth for its market size, the levels of foreign direct investment, and percentage of high-tech exports as share of total manufactured goods. Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Although one of the world's wealthiest countries 100 years ago, Argentina suffered during most of the 20th century from recurring economic crises, persistent fiscal and current account deficits, high inflation, mounting external debt, and capital flight.

A severe depression, growing public and external indebtedness, and a bank run culminated in 2001 in the most serious economic, social, and political crisis in the country's turbulent history. Interim President Adolfo Rodríguez Saá declared a default - the largest in history - on the government's foreign debt in December of that year, and abruptly resigned only a few days after taking office. His successor, Eduardo Duhalde, announced an end to the peso's decade-long 1-to-1 peg to the US dollar in early 2002. The economy bottomed out that year, with real GDP 18% smaller than in 1998 and almost 60% of Argentines under the poverty line. Real GDP rebounded to grow by an average 8.5% annually over the subsequent six years, taking advantage of previously idled industrial capacity and labour, an audacious debt restructuring and reduced debt burden, excellent international financial conditions, and expansionary monetary and fiscal policies. Inflation also increased, however, during the administration of President Néstor Kirchner, which responded with price restraints on businesses, as well as export taxes and restraints, and beginning in early 2007, with understating inflation data. Cristina Kirchner succeeded her husband as President in late 2007, and the rapid economic growth of previous years began to slow sharply the following year as government policies held back exports and the world economy fell into recession. The economy has rebounded strongly from the 2009 recession, but the government's continued reliance on expansionary fiscal and monetary policies risks exacerbating already high inflation.

## Key Statistics



Population	40.6 million
GDP	\$368bn
GDP growth	9.2%
GDP per capita	\$9,067
Inflation 2009	6.3% (2009)**
Unemployment	8.6% (2009)
Public Debt	46.3%
FDI	\$3.9bn
Foreign Reserves	\$48bn
Ease of doing Business	115 <sup>th</sup>
Credit Rating	B
Irish exports	\$64.4 million

\*\*Argentine official inflation figures are widely disregarded as government propaganda. While it is hard to know the exact figure most analysts speculate that the annual figure is running at somewhere in the 20's.

## Bolivia



### Overview

Bolivia is a small land locked country situated in the Andean mountain range with a population of 10 million. It has borders with Brazil in the North and East, Argentina and Paraguay to the south, Chile to the south west and Peru to the west. Named after the Liberator, Simon Bolivar, it is one of the poorest countries in Latin America. Bolivia is a democratic republic with the country being divided into 9 regions.

### Political

Evo Morales has been the President of Bolivia since 2005. He represents a new group of leftist / indigenous politicians who have recently triumphed at the election ballot. Morales, a former union leader, first entered politics in the 1990's with the message of a more just society promising the indigenous communities more redistribution of the countries resources. In the 2002 election he came in second place and then in 2005 he was elected as Bolivia's first indigenous president. His left-wing political party, MASP, is the largest in the country and it was founded in 1995. The MASP is a coalition of far-left parties, indigenous activists and NGOs. Social movements, such as unions and peasant groups, form its political base.

His major achievement in his first term was to pass through a new constitution which it was hoped would lay the foundation for a fairer society. Following the approval of this new constitution new elections were called and in 2009 Morales won with a landslide 64% of the vote. However, in recent times Morales has faced increasing voter dissatisfaction as his government has failed to live up to its promises. Many indigenous groups have accused him of failing to consult them on large infrastructure projects as well as not distributing government public spending as promised. Morales has countered by saying that infrastructure development is key to Bolivia's growth and that a long drawn out consultation process for every project will halt development and therefore hurt the economy, in particular the mining sector.

The next Presidential election is set for 2014. Morales has already stated that he is eligible to run for a third term and that he will stand for re-election. His opponents, who come from the commercial capital of Santa Cruz, have said that the constitution only allows a President to seek re-election once. However, Morales believes that his first term was incomplete and therefore he can run again. This is going to be the most important issue in Bolivian politics in the next couple of years.

### Economic

Bolivia has a relatively small economy (\$45bn) which is heavily focused on commodities. It has found it hard to move away from dependence on commodity led growth. One of the reasons is the country topography; Bolivia is nestled high up in the Andes and has a very difficult terrain making it difficult to grow other sectors of the economy. Indeed simple transport between cities can be a struggle.



Adding to these problems has been a long history of political corruption and tensions with many of the indigenous groups and the commercial elite in Santa Cruz who are considered close to the international mining groups. In 2005 laws were passed which forced foreign firms to pay higher royalties on mining and gas projects and in some cases they were forced to surrender control of certain projects in exchange for a flat management fee. These laws greatly helped the economy but once again it was entirely led by the mineral sector. During 2010 an increase in world commodity prices resulted in the biggest trade surplus in history. However, a lack of foreign investment in the key sectors of mining and hydrocarbons and higher food prices pose challenges for the Bolivian economy.

### Key Statistics

Population	10 million
GDP	\$19.7bn
GDP growth	4.2%
GDP per capita	\$1,973
Inflation	3.3% (2009)
Unemployment	5.2% (2007)
Public Debt	N/A
FDI	\$423 million
Foreign Reserves	\$8.5bn
Ease of doing Business	149 <sup>th</sup>
Credit Rating	B+
Irish exports	\$2 million

## Brazil



### Overview

Brazil is the fifth largest country in the world, the largest in the Southern Hemisphere and the giant of Latin America, being over three times the size of the next biggest, Argentina. Covering half of the South American land mass, it borders all the countries of South America except for Chile and Ecuador. With 191 million inhabitants it is the world's fifth most populous country containing half the population of South America, which produces half the continent's GDP. It has settled borders defined by treaty with all its neighbours and has no secessionist or ethnic conflicts within the state, though crime rates remain high despite significant improvements in the country's homicide rate over the last decade.

### Political

Brazil returned to civilian rule in 1985 after a 21-year dictatorship. The country is defined as a federal republic by the constitution of 1988. Power is distributed between the federal government, the 26 state governments and the federal district, and 5,564 municipalities. The federal government, located in the capital Brasília is the most powerful of the three levels of state in Brazil, is run by a president elected every four years with an incumbent allowed to seek one consecutive term. The president appoints a cabinet as well as 21,000 other positions throughout the federal government and state-controlled bodies and companies. This extraordinary patronage system is used to build a governing coalition in the country's fractious legislature. In Brazil coalitions at the federal level are not necessarily replicated at state or municipal level. Coalition allies at one level of the federal system can be rivals at another with combinations also varying across regions.

The current president is Dilma Rousseff of the Workers Party. Brazil's first woman president, she was sworn in for her first term on January 1st 2011. It is the third consecutive term in power for the Workers Party, the country's largest left-wing party which has governed the country in alliance with an ideologically heterodox coalition in the congress since Luiz Inácio Lula da Silva became the country's first ever left-wing president in 2003. President Dilma has little powerbase of her own within the Workers Party and owes her position to Lula's backing after several of the Workers Party's likely candidates to succeed him fell in corruption scandals during his two terms in power.

President Dilma's profile is technocratic rather than political. She has a reputation as a strong project manager with a superb grasp of detail but with limited patience for ministers and other managers unable or unwilling to match her capacity and drive. She is a member of the so-called "developmentalist" wing of the ruling coalition which seeks to avoid Brazil becoming caught in the commodity trap and she is an aggressive promoter of national business champions as well as large scale infrastructure projects, especially in the energy sector. Since coming to power she has been forced by media exposure to force out several ministers inherited for the Lula government for corruption. With a completely clean record in public life, her feelings on losing corrupt politicians

forced on her by the exigencies of coalition rule can only be guessed at but she has publically resisted a radical sweep-out of corrupt ministers and other presidential appointments. To do so would see several of her coalition partners forced out of power and inevitably lead to the loss of their support in congress thus weakening her capacity to pass key legislation.

Traditionally the president's key minister is the cabinet head (the *Chefe da Casa Civil*) whose role is to coordinate the federal government's programme among the ministries and with other branches of power. After losing her first cabinet head in a corruption scandal earlier this year her current appointment is the little-known and untried Gleisi Hoffmann, whose appointment was widely seen as an attempt to gain autonomy from her mentor and predecessor Lula. The other two members of her inner cabinet are Gilberto Carvalho, the presidency's secretary-general, and Ideli Salvatti, secretary of institutional relations, both of whom play key roles in coordinating government policy across institutions and coalition parties.

Brazil's congress is made up of a senate and the chamber of deputies. As a body the legislature is institutionally corrupt and typically subservient to the executive. No one party commands a majority in either house making coalitions inevitable. There are 22 parties represented in the lower house and 15 in the senate. Party leaders will trade support in congress for the president of the day for appointments throughout the federal system, which are then used to provide illegal party campaign funds as well as illicit personal enrichment. Party "floor managers" are then responsible for enforcing this trade-off by ensuring party discipline in congress during contentious votes. As well as party blocs, there also exist strong blocs representing sectoral interests which cut across party lines. Thus congress has a strong "rural caucus" which is extremely hostile to foreign criticism of Brazilian environmental practices. As well as regional groupings, there are other caucuses which represent groups as diverse as Brazil's strong evangelical protestant movement, the country's non-oil producing states and trade unions, whose various confederations back different parties.

The third branch of the federal government is the judiciary which is institutionally dysfunctional resulting in the slow processing of cases which in many cases can take years if not more than a decade. Though corruption is serious, the judiciary exhibits a greater degree of political autonomy than the legislature. Brazil's geographical size, diversity and federal make-up ensure there is little chance of an overweening executive. Many state governments are poor and highly dependent on the federal government for cash transfers but nonetheless display a certain degree of autonomy from the federal government.

Wealthy states, especially those in the south and southeast of the country, are less reliant on transfers from the federal government and thus maintain a high level of independence, whether run by parties in or out of the coalition in power in Brasília. In contrast to many other countries in the region, state governments controlled by the opposition often maintain cordial and productive relations with the federal government. Despite frequent and sometimes bitter political disputes between government and opposition Brazil's political culture values consensus over conflict. This prevents the subversion of state institutions for party political purposes but encourages a culture of permissiveness towards corruption.

Following a third defeat in a presidential election Brazil's opposition is in a state of crisis. The second largest opposition party – the right-wing Democrats – are in a state of disintegration with many of their leading elected officials migrating to a new party that is seeking an accommodation with the

ruling coalition in Brasília. The leading opposition figure with a realistic chance of being competitive in 2014's presidential election is the Social Democrat senator Aécio Neves, senator from Minas Gerais, Brazil's second most populous state, where he was a former two-term governor and which he still controls. Other possible presidential candidates for the presidency in 2014 include Eduardo Campos, currently governor of Pernambuco, and leader of the Brazilian Socialist Party which forms part of President Dilma's coalition.

Brazil's municipalities range in size and capacity from the huge – São Paulo city has a population of over 11 million – to the sparsely populated in the country's poor interior. Such factors will determine their level of autonomy. Many are highly dependent on the federal government for cash transfers, others, particularly those in wealthier states, are more closely aligned with their state governments. State governors traditionally have a strong influence over municipal politics as well as elections for the congress, thus making them important interlocutors with the presidency. Within the state other important bodies are the central bank which has operational rather than full independence from the finance ministry. Despite this limitation it has shown itself able to resist considerable political pressure in the past for lower interest rates by consistently maintaining the world's highest real interest rates in its battle against inflation. The federal government also controls through direct shareholding and the shares of public pension funds Petrobras, the country's energy giant and one of the world's biggest listed companies and Vale, the world's biggest iron ore miner, as well as Banco do Brazil and Caixa Economica Federal, the two biggest banks.

## **Economic**

The Brazilian economy became the 7<sup>th</sup> largest economy in the world in 2010. This is an astonishing statistic given that in the 1990's Brazil's economy was on its knees fighting hyperinflation and needing a \$45bn bailout package from the IMF. The seeds to this economic success were sown in the 1990's under then Minister of Finance (Later President) Henrique Cardoso. Cardoso and his economic team introduced the Plano Real which was a set of measures to reduce the problem of inflation and stabilize the country's finances. The key to success was the introduction of the *unidade real de valor* in March 1994 which was a non-monetary reference currency which would be shown parallel to the existing currency, the *cruzeiro*. The government introduced it to combat the Brazilian mind-set towards inflation which psychologically was the main problem. For three months in 1994 the *unidade real de valor* existed parallel to the old currency the *cruzeiro*. People were able to see that prices under the *unidade real de valor* remained stable. Then in June they introduced a new currency, the Real, which was pegged to the Dollar and successfully managed to reduce inflation. At the same time Cardoso and his team introduced large structural reforms to the management of the economy in particular the balance sheet of the current account.

By the time Luis Inácio Lula da Silva was elected the first left-wing president in the country's history in 2002 the economy was on a sound footing and was ready to take advantage of the growth in the global economy. Initially sceptical of a left-wing president in charge of Latin America's largest economy international market fears were quickly calmed as Lula continued with the sound macro-economic policies of his predecessor. Lula has pursued a policy of economic stability; private investment and a series of generous social programmes such as *bolsa familia* which has helped the economy grow and have also lifted over 30 million Brazilians out of poverty. One of the key drivers for the economy has been the economic growth in Asia (in particular China) and its large demand for

commodities such as iron-ore. Throughout this period the government was keen to ensure the commodities boom was not wasted and it ensured that wealth was redistributed. While successfully lifting millions out of poverty Brazil created millions of new middle class consumers at the same time. This has helped Brazil create a very strong domestic economy which has been facilitated by the government led expansion of credit.

One of the most remarkable aspects of the recent financial crisis in 2008 was Latin Americas, and in particular Brazils, management of the financial crisis. Brazil's economic growth was barely knocked of course and the economy recorded GDP growth of 7.5% in 2010 at a time when Europe and the United States were still grappling with recession. The reason that Brazil's economy was so resilient in the face of a global recession was its sound macro-economic frame work which had being built up over the past 20 years. This is a combination of large structural reforms in the economy and the development of a strong macro-economic framework. Unlike their counterparts in the UK and United States Brazilian banks were strictly monitored by the Central Bank regulator. Capital ratios are much higher often at 15% - 17%, banks must record all assets on their balance sheet and securitisation does not exist in the Brazilian mortgage market. For this reason the economy had a key sector which wasn't a drag on public finances but actually worked to keep growth positive. In 2009 and 2010 the government channelled over R\$200bn through the banks to keep credit flowing

Another key difference from previous crisis is Brazil has greatly improved its international debt management and it is now a net creditor to the rest of the world. Low public and private sector debt coupled with flexible monetary policy tools enabled the government to deal effectively with the threats posed from the financial crisis. Another difference in this crisis is that Brazil's economy is more closely linked with Asia which didn't suffer the same slowdown as the west.

Brazil's economy is centered on three core areas – commodities and energy sector, industrial and the service sector. The commodity sector is dominated by Petrobras, the 4<sup>th</sup> largest oil company in the world, and Vale, the world's largest iron-ore producer. Both companies are publicly quoted on the Sao Paulo stock exchange, the BOVESPA, but the government in reality still has control of how they are run. Following the 2006 oil find off the coast of Rio de Janeiro Brazil is now energy self-sufficient and also has one of the world's most vibrant alternative energy sectors made up of biofuels, hydro energy and wind energy. The industrial sector accounts for 30% of the economy with particular emphasis on automobiles, steel and petrochemicals, computers and aircraft (Embraer is the third largest aircraft manufacturer in the world). The banking sector is centered in Sao Paulo, the financial capital of Latin America. While the government is heavily involved through state banks such as the development bank BNDES and the retail giant Banco do Brazil there is a healthy private banking sector with corporate giants such as Itau Unibanco and Banco Santander do Brazil. In recent years Brazil has also seen the rise of a younger business generation who are building world class companies such as BTG Pactual which has become one of the most important investment banks in Latin America with over US\$70bn worth of assets under management.

However there are a number of issues which Brazil needs to address if it is to maintain its strong economic performance. The most important issue at the moment is that government investment is currently not matching the growth of the economy which is causing major infrastructural problems. This is why the government needs the economy to slow down to a more stable rate of 4% to 5% so that it can ensure the economy grows at a more manageable rate. Another issue which is creeping

up on the economy is the high levels of consumer debt which has risen from 25% of GDP in 2005 to 47% in 2011. While small compared to western economies this area is still a cause for concern as domestic consumption has been one of the drivers of the economy. While there may not be a bubble there is real concern that Brazilian consumers might be overstretched. Brazilian interest rates are on average 46% which has conversely reduced the bubble effect but at the same time made consumers more likely to default. The final issue that needs to be addressed is the reforming of Brazil's complicated tax system which was one of the reasons Brazil is listed 127<sup>th</sup> on the World Bank's Ease of Doing Business list 2010. The current system which is antiquated and almost impossible to navigate is a major drag on business, in particular the SME sector. Parliament is currently pushing through reforms but it is too early to tell if these reforms will work.

The key challenge for Brazil in the coming years is maintaining economic stability and managing the balance of a commodity led growth with domestic led consumer growth. One of the keys to the success of the Brazilian economy has been how it has opened to international trade unlike the 1970's and 1980's where it raised tariffs to boost local industry. This is one of the key points made by Jim O'Neill of Goldman Sachs and his theory on the BRICS and the emergence of developing economies. Countries with large populations (but low labour force participation) and low productivity can increase GDP growth if they are willing to engage with the rest of the world economy. This is exactly what Brazil has done in the past decade. The combination of sound macro-economic policies and the growth in the world economy has propelled Brazil to the 7<sup>th</sup> largest economy in the world with many predicting it will soon overtake Germany and the UK as well. It has low public debt of 41%, foreign currency reserves of almost \$400bn, one of the world's largest oil reserves, low inflation and virtual full market employment. If Dilma and her successors can continue to build on the strong economic foundations laid by Cardoso and Lula there is every reason to believe that Brazil will continue on its path to becoming one of the world's global economic powers in 21<sup>st</sup> century.

### Key Statistics

Population	195 million
GDP	\$2.1 trillion
GDP growth	7.5%
GDP per capita	\$10,710
Inflation	4.9% (2009)
Unemployment	8.3% (2009) **August 2011 figure is 6%
Public Debt	66.2%
FDI	\$25.9bn
Foreign Reserves	\$238bn
Ease of doing Business	127 <sup>th</sup>
Credit Rating	BBB+
Irish exports	\$260 million

**\*\*Given the fact that Brazil is the largest and most important economy in Latin America we felt it was important to include the most up to date figure for unemployment. The most recent figure has been provided by the IBGE, Brazil's equivalent of the Central Statistics Office**

## Chile



### Overview

Occupying a coastal strip over 4,300 kilometres long but less than a tenth that at its widest point Chile is today a dynamic, increasingly prosperous country of 17 million inhabitants. Sandwiched between the Pacific Ocean and the Andes mountain range it has long had a reputation for being an inward-looking, somewhat provincial society but in recent decades has refashioned itself as an outward facing nation and become in the process one of the region's most dynamic exporters.

Chile is perhaps more than any other country Latin America's greatest success story since the region returned to civilian rule. In 2010 it became the first South American nation to join the OECD, and today is one of only two Latin American members alongside Mexico. It has made enormous strides in reducing poverty though inequality remains stubbornly high and is an on-going source of social tension. It is Latin America's least corrupt society, sandwiched between Britain and the United States on Transparency International's Corruption Perceptions Index and one of its most peaceful.

Chile still has unresolved border and maritime disputes with Peru and Bolivia resulting from its conquest of the north of the country in the War of the Pacific in the 19th century. Bolivia is actively pursuing its demands for a return of an outlet on the Pacific Ocean. Chile refuses all demands but the on-going dispute remains a thorn to closer relations with its two neighbours and justifies Chile's high per capita military expenditure.

### Political

Chile is a unitary state with a national government and 15 administrative regions. A representative democracy power is heavily concentrated at the national level where it is distributed between a president, a national congress and the judiciary. The country displays a high level of institutional functionality with the legislature and judiciary operating independently of the executive. The president appoints governors to the 15 administrative regions and their component provinces. Provinces are made up of communes which are run by elected mayors and municipal councils. The president is elected to one four year term without the right to immediate re-election.

The current president is Sebastián Piñera of the right-wing Coalition for Change alliance, becoming the first elected right-wing president in over half a century. Mr Piñera's party— National Renewal - is from the more liberal business wing of the alliance whose main component is the Independent Democratic Union, which is socially conservative, heavily influence by Opus Dei and a staunch defender of privilege. Several leading figures in his alliance held office during the Pinochet dictatorship. The country's senate is controlled by the left-wing Concertación opposition while President Piñera's alliance maintains a slim majority in the lower house. The electoral system favours a left-right division of the spoils between the country's two main electoral alliances at the expense of third forces. This combined with the need within the Coalition for Change and the Concertación to



negotiate agreed programmes that produce a consensus tilted towards their more centrist components means that Chile has over the last two decades been one of the region's most moderate polities, despite at times heated discussions over how to resolve the criminal legacy of the Pinochet dictatorship.

But there are early signs that Chilean politics are undergoing change imposed from outside the traditional political system. Recent massive protests in demand of better education have become a lightning-rod for a society that after years of concentrating on achieving economic growth is once again becoming preoccupied with persistent income inequality. His poor handling of the student protests has reinforced President Piñera's image as arrogant, aloof and a representative of an elite that has gained most from the country's emergence as a regional economic force. As a billionaire entrepreneur he has become a target for those protesting against business elite that enjoys the lowest taxes in the OECD. This perception that business has too much say in Chile is behind the opposition to even a partial privatisation of the state's copper mines, a move not even Pinochet contemplated.

This has encouraged the Concertación to threaten passage of his 2012 budget through the congress in a move that could herald the start of a more confrontational, less consensual, period in Chilean politics. But the criticism of Piñera extends to the whole political system and includes the left-wing Concertación. It is widely perceived as led by an aging cadre that helped lead the country back to civilian rule 21 years ago and during its 20 years in power to have pursued the market-friendly policies that have made huge strides in eliminating poverty but not inequality. If the president is unpopular opinion polls show the Concertación is struggling to take advantage. The best electoral expression of this desire for change was the third party candidacy of Marco Enríquez-Ominami in the last presidential elections.

A former member of the Concertación he took 20% of the vote, winning heavily among young people across the political spectrum. He is perceived to be a candidate to replace Piñera but has done little to build a national organisation to mount a serious challenge to the political duopoly.

With over two years to go before presidential elections it is too soon to write off the president as a lame duck as many already have. But he has little time left to turn around his presidency, and given that he is unable to stand, his influence will eventually drain away as his term nears its end. The one figure to remain popular in his administration is Public Works Minister Laurence Golborne largely thanks to his role in overseeing the rescue of 33 trapped miners last year. Another possible successor from the cabinet is the competent defence minister Andrés Allamand.

Despite the Concertación's unpopularity it does hold a trump card –the country's most popular and respected politician is former Concertación president Michelle Bachelet who polls show would sweepback into power if a candidate in two years time. It is too soon to say exactly how far the present political turmoil will go in are shaking up Chile's 20-year political consensus. But at the moment there has been no public debate about changing the market-friendly, export-driven economic model and so far just public demands for a fairer distribution of the fruits of the rising prosperity it has brought.

## Economic

Chile is by all accounts Latin America's richest and most successful economy. It has a market-oriented economy characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policy that have given it the strongest sovereign bond rating in South America. Exports account for more than one-fourth of GDP, with commodities making up some three-quarters of total exports. Copper alone provides one-third of government revenue. The world's largest copper mine is located in Escondida in Chile which produces almost 2 million tonnes annually.

Since 1999, growth has averaged 4% per year. Chile deepened its longstanding commitment to trade liberalization with the signing of a free trade agreement with the US, which took effect on 1 January 2004. Chile claims to have more bilateral or regional trade agreements than any other country. It has 57 such agreements (not all of them full free trade agreements), including with the European Union, Mercosur, China, India, South Korea, and Mexico. Over the past seven years, foreign direct investment inflows have quadrupled to some \$13 billion in 2010.

The Chilean government conducts a rule-based countercyclical fiscal policy, accumulating surpluses in sovereign wealth funds during periods of high copper prices and economic growth, and allowing deficit spending only during periods of low copper prices and growth. As of September 2008, those sovereign wealth funds - kept mostly outside the country and separate from Central Bank reserves - amounted to more than \$20 billion. Chile used \$4 billion from this fund to finance a fiscal stimulus package to fend off recession. In May 2010 Chile became the first country from South America to join the OECD.

### Key Statistics

Population	17.1 million
GDP	\$203bn
GDP growth	5.2%
GDP per capita	\$11,873
Inflation	1.5% (CIA factbook)
Unemployment	9.7% (2009)
Public Debt	9.2%
FDI	\$12.7bn
Foreign Reserves	\$25bn
Ease of doing Business	43 <sup>rd</sup>
Credit Rating	AA
Irish exports	\$39.1 million

## Colombia



### Overview

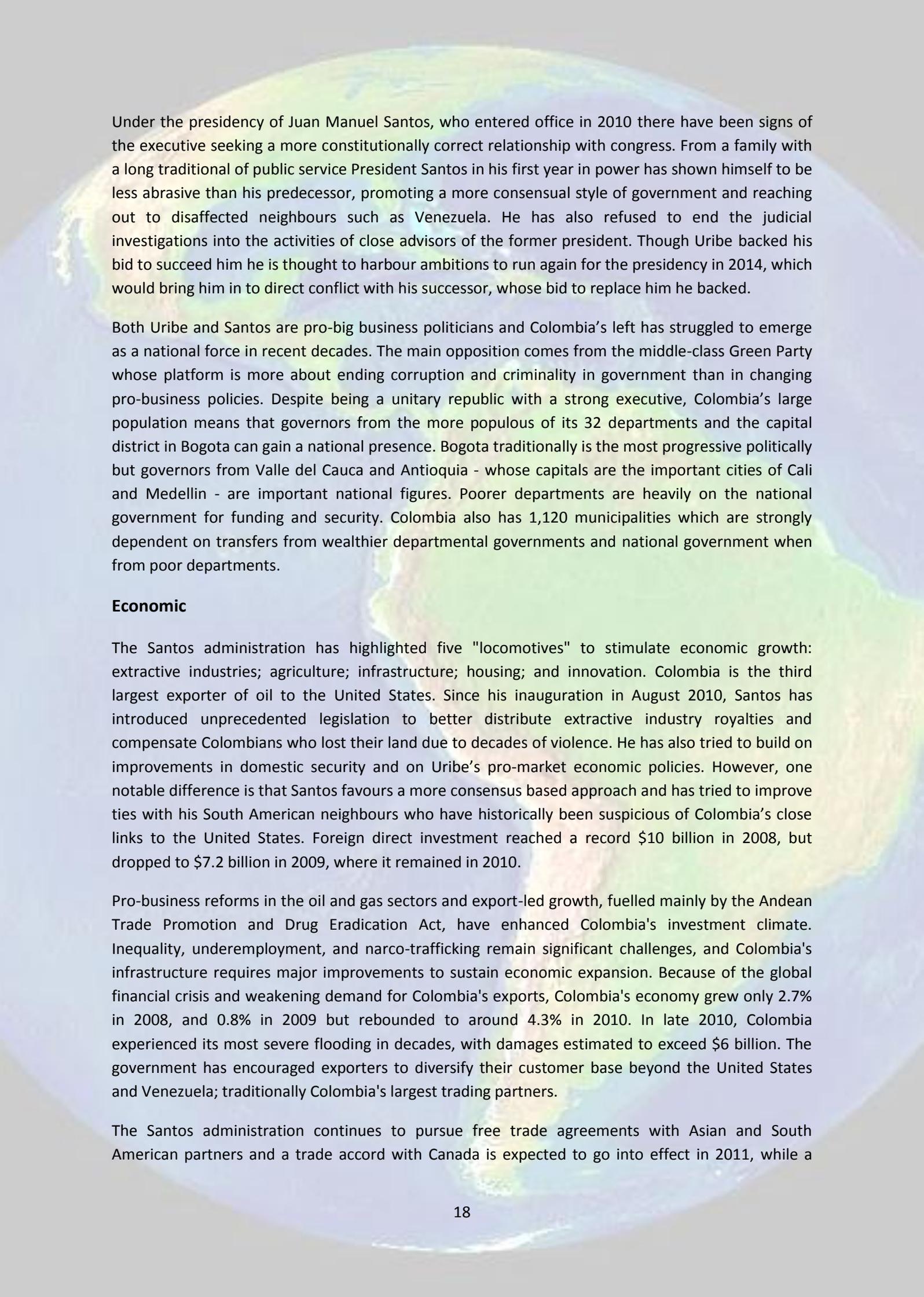
Colombia is South America's second most populous nation with 45 million inhabitants. It is a country of sharp contrasts where a civil-war in remote jungle and mountain regions continues an investor-friendly economy which is expanding rapidly. The three-way civil war between the state, Marxist guerrillas and right-wing paramilitaries is the cause of significant insecurity but in the last decade the state has pushed the guerrillas back to remoter, sparsely populated regions. Colombia is bordered to the east by Venezuela and Brazil, to the south by Ecuador and Peru and to the northwest by Panama.

### Political

Today the biggest rebel force, the Farc, is reduced to about half its former strength and is restricted to hit and run ambushes that rarely threaten populated centres. Though their influence has been greatly reduced foreign workers, especially US citizens, working in remoter regions are a target for the guerrillas. The main right-wing paramilitary groups disbanded during under an amnesty programme but recent years have seen paramilitary elements re-emerge as criminal organisations less interested in fighting the guerrillas but in filling the power vacuum in regions cleared of Farc presence by the military. Colombia's close alliance with the United States and the presence of US military bases on its soil means that it is viewed with suspicion by several of its neighbours. Relations with neighbouring Venezuela and Ecuador have been especially tense in recent years. Colombia also remains the world's biggest producer of cocaine and though the large cartels of the 1980s and 1990s have been dismantled high levels of corruption and violence associated with drug trafficking remains a persistent problem in the country.

In the last decade Colombia has seen remarkable economic growth directly linked to the state's successes against irregular armed groups in the state. In sharp contrast to little more than a decade ago travel throughout much of the country is now safe. Large areas of the countryside cleared of guerrillas have been opened up for economic activity, especially oil, gas and mining exploration.

Colombia is a unitary state whose national government is divided between a president, a congress and the judiciary. The president is elected every four years with the right of re-election. The legislative branch and the judiciary show varying degrees of independence from the executive. In the last decade the legislature came increasingly under the control of President Alvaro Uribe. It was the country's judiciary who provided the main counterbalance to his power, forbidding him to seek a third term, despite him having the requisite support in the legislature and among the population. The judiciary was also central to the investigation of large swathes of the congressional block backing President Uribe for their links to paramilitaries and involvement in their drug trafficking activities.



Under the presidency of Juan Manuel Santos, who entered office in 2010 there have been signs of the executive seeking a more constitutionally correct relationship with congress. From a family with a long traditional of public service President Santos in his first year in power has shown himself to be less abrasive than his predecessor, promoting a more consensual style of government and reaching out to disaffected neighbours such as Venezuela. He has also refused to end the judicial investigations into the activities of close advisors of the former president. Though Uribe backed his bid to succeed him he is thought to harbour ambitions to run again for the presidency in 2014, which would bring him in to direct conflict with his successor, whose bid to replace him he backed.

Both Uribe and Santos are pro-big business politicians and Colombia's left has struggled to emerge as a national force in recent decades. The main opposition comes from the middle-class Green Party whose platform is more about ending corruption and criminality in government than in changing pro-business policies. Despite being a unitary republic with a strong executive, Colombia's large population means that governors from the more populous of its 32 departments and the capital district in Bogota can gain a national presence. Bogota traditionally is the most progressive politically but governors from Valle del Cauca and Antioquia - whose capitals are the important cities of Cali and Medellin - are important national figures. Poorer departments are heavily on the national government for funding and security. Colombia also has 1,120 municipalities which are strongly dependent on transfers from wealthier departmental governments and national government when from poor departments.

### **Economic**

The Santos administration has highlighted five "locomotives" to stimulate economic growth: extractive industries; agriculture; infrastructure; housing; and innovation. Colombia is the third largest exporter of oil to the United States. Since his inauguration in August 2010, Santos has introduced unprecedented legislation to better distribute extractive industry royalties and compensate Colombians who lost their land due to decades of violence. He has also tried to build on improvements in domestic security and on Uribe's pro-market economic policies. However, one notable difference is that Santos favours a more consensus based approach and has tried to improve ties with his South American neighbours who have historically been suspicious of Colombia's close links to the United States. Foreign direct investment reached a record \$10 billion in 2008, but dropped to \$7.2 billion in 2009, where it remained in 2010.

Pro-business reforms in the oil and gas sectors and export-led growth, fuelled mainly by the Andean Trade Promotion and Drug Eradication Act, have enhanced Colombia's investment climate. Inequality, underemployment, and narco-trafficking remain significant challenges, and Colombia's infrastructure requires major improvements to sustain economic expansion. Because of the global financial crisis and weakening demand for Colombia's exports, Colombia's economy grew only 2.7% in 2008, and 0.8% in 2009 but rebounded to around 4.3% in 2010. In late 2010, Colombia experienced its most severe flooding in decades, with damages estimated to exceed \$6 billion. The government has encouraged exporters to diversify their customer base beyond the United States and Venezuela; traditionally Colombia's largest trading partners.

The Santos administration continues to pursue free trade agreements with Asian and South American partners and a trade accord with Canada is expected to go into effect in 2011, while a



negotiated trade agreement with the EU has yet to be approved by the EU parliament. Improved relations with Venezuela have eased worries about restrictions on bilateral trade, but the business sector remains concerned about the pending US Congressional approval of the US-Colombia Trade Promotion Agreement.

### Key Statistics

Population	46.3 million
GDP	\$288bn
GDP growth	4.3%
GDP per capita	\$6,224
Inflation	4.2% (2009)
Unemployment	12% (2009)
Public Debt	42.5%
FDI	\$7.2bn
Foreign Reserves	\$25bn
Ease of doing Business	39th
Credit Rating	BBB+
Irish exports	\$29.7 million

## Costa Rica



### Overview

Costa Rica is located in Central America with Panama on its southern border and Nicaragua on its northern border. It is one of Latin America's oldest democracies and has one of the highest GDPs per capita in the Central America. Costa Rica has consistently been a star performer in the United Nations Development Index and it is also recognized as one of the world's "greenest" countries. While only occupying .25% of the world's landmass it has 5% of the world's biodiversity. Costa Rica is a presidential representative democratic republic, with a multi-party system. Executive power is exercised by the president and his cabinet, and the President of Costa Rica is both the head of state and head of government. Legislative power is vested in the Legislative Assembly. The president and 57 Legislative Assembly deputies are elected for 4-year terms. The Judiciary operates independent of the executive and the legislature.

### Political

In the past 25 years two parties have dominated politics in Costa Rica, The National Liberation Party (PLN) and the Social Christian Unity Party (PUSC). Politics in general has remained very much in the centre with the PLN slightly to the left and the PUSC slightly to the right. Costa Rica's most prominent politician is Oscar Arias of the PLN, who was first elected President in 1986. He was awarded the Nobel Peace Prize for his efforts to end the civil wars in Central America. Although it was unconstitutional to run for a second term Arias successfully managed to convince the Supreme Court of rescinding this article from the constitution and in 2006 he was elected for another 4 year term. He has continued to remain influential in Latin American politics and many other leaders look to him to mediate in conflicts. The 2010 election saw a female President elected for the first time as Laura Chinchilla Miranda of the PLN was elected. She is considered a social conservative and is in favour of close state / church relations, something her predecessor was against. Her main issues to deal with are the effect of climate change on the tourist industry, increasing crime stemming from the north and maintaining the successful economic performance of the last few years.

### Economic

The Costa Rican economy is centered on 3 core areas, agriculture, and tourism and manufacturing exports. Over the last 20 years it has developed one of the world's most sophisticated tourist industries and it was one of the first countries to champion the idea of eco-tourism. It has extensive national parks, beautiful beaches, benign volcanoes, incredible bio-diversity and a long list of UNESCO World Heritage Sites. Another key factor is that it is one of the safest countries in Latin America making it a magnet for American and European tourists. Agriculture is still a strong component of the economy with exports of coffee, bananas, sugar and pineapple still very important. At the same time Costa Rica has successfully turned itself into a low cost manufacturing base. Its educated population, low cost base and attractive location have made major US corporations such as Intel and Proctor and Gamble set up plants there.



### Key Statistics

Population	4.6 million
GDP	\$34.5bn
GDP growth	3.5%
GDP per capita	\$7,450
Inflation	7.8% (2009)
Unemployment	4.9% (2008)
Public Debt	N/A
FDI	\$1.3bn
Foreign Reserves	\$4bn
Ease of doing Business	125th
Credit Rating	BB+
Irish exports	\$56.4 million

## Cuba



### Overview

Cuba is an island nation located in the Caribbean. To the north lies the United States, to the west Mexico and to the east lies Haiti and the Dominican Republic. The capital is Havana and with a population of 11 million it's the most populous country in the Caribbean. Cuba is a socialist republic which has a one party system controlled by the Communist Party. The head of the government is the President who is elected by the National Assembly for 5 year terms with there being no limit to the amount of terms an incumbent can serve.

### Political

Cuba is constitutionally defined as a "socialist state guided by the principles of José Martí, and the political ideas of Marx, the father of communist states, Engels and Lenin." Since 1959 it has been run by Fidel Castro and more recently his brother Raul. Executive power is exercised by the Cuban Government, which is represented by the Council of State and the Council of Ministers. Raul Castro is currently President of the Council of State, President of the Council of Ministers (sometimes referred to as the Prime Minister), First Secretary of the Communist Party, and Commander-in-Chief of the Revolutionary Armed Forces.

Since the time Fidel Castro came to power, the Cuban Government has been condemned by certain (mostly dissident) Cuban groups, some international groups, and foreign governments for engaging in activities labelled by some as undemocratic. The United States Government has initiated various policy measures such as the trade embargo in an effort to force through political reforms. However, these have been largely unsuccessful as Fidel Castro has remained in power for 50 years. Cuba's foreign policy has been scaled back and redirected as a result of economic hardship after the collapse of the Soviet bloc. Without massive Soviet subsidies and its primary trading partner Cuba was comparatively isolated in the 1990s, but has since entered bilateral co-operation with several South American countries, most notably Venezuela and Bolivia. Cuba has normal diplomatic and economic relations with every country in the Western hemisphere except the United States. Cuba has developed a growing relationship with the People's Republic of China and Russia. In all, Cuba continues to have formal relations with 160 nations, and provided civilian assistance workers – principally medical – in more than 20 nations.

In recent years Fidel Castro has receded from public life as a result of illness and old age (he is 85). His brother Raul, 80, has been running the country ever since and has engaged in a process of slow but gradual reform. In April 2011 he introduced 300 economic reforms similar to the Chinese economic model, encouraging private initiative, reducing state spending, encouraging foreign investment and agrarian reforms.

## Economic

Cuba has a largely state-controlled planned economy. Most of the means of production are owned and run by the government and most of the labour force is employed by the state. Recent years have seen a trend towards more private sector employment. Public sector employment is around 75% compared to 90% thirty years ago. Capital investment, property ownership and running a private business are restricted and require approval by the government. The Cuban government sets most prices and rations goods. Until the 1990's Cuba relied heavily, almost exclusively, on trade with the Soviet Union. Its collapse cause serious economic problems for Cuba in the 1990's as food and other goods were in short supply. At the same time the United States tightened the trade embargo which forbids American countries to sell to Cuba.

As a result of losing the Soviet support Cuba took limited free market-oriented measures to alleviate severe shortages of food, consumer goods, and services. These steps included allowing some self-employment in certain retail and light manufacturing sectors, the legalization of the use of the US dollar in business, and the encouragement of tourism. Tourism was initially restricted to enclave resorts where tourists would be segregated from Cuban society, referred to as "enclave tourism" and "tourism apartheid". In 1996 tourism surpassed the sugar industry as the largest source of hard currency for Cuba. Cuba has tripled its market share of Caribbean tourism in the last decade; as a result of significant investment in tourism infrastructure, this growth rate is predicted to continue.

Cuba's major exports are sugar, nickel, tobacco, fish, medical products, citrus, and coffee; imports include food, fuel, clothing, and machinery. At one time, Cuba was the world's most important sugar producer and exporter. As a result of diversification, underinvestment, and natural disasters, Cuba's sugar production has seen a drastic decline. In 2002 more than half of Cuba's sugar mills were shut down. In recent years Cuba has formed a closer economic relationship with Hugo Chavez as he has supplied the country with cheap oil. In exchange Cuba has sent many of its world class doctors to work in Venezuelan hospitals

## Key Statistics

Population	11.2 million
GDP	\$62bn (2008)
GDP growth	N/A
GDP per capita	\$5,596 (2008)
Inflation	N/A
Unemployment	1.6% (2008)
Public Debt	N/A
FDI	N/A
Foreign Reserves	N/A
Ease of doing Business	N/A
Credit Rating	N/A
Irish exports	\$1.8 million

## Dominican Republic



### Overview

The Dominican Republic is located on the island of Hispaniola in the Caribbean. It occupies 2/3rds of the island with Haiti occupying the remaining 1/3. Santo Domingo is the capital and with a population of 10 million it is the second most populous country in the Caribbean after Cuba. It is the second largest economy in the Caribbean and the number one tourist destination. The Dominican Republic is a representative democracy with a multi-party system and the President is head of state and government. Legislative power is held in a two house national congress and the judiciary is separate from both the executive and the national congress.

### Political

For the majority of the 20<sup>th</sup> century the Dominican Republic had to experience a number of extremely brutal dictatorships put in place by the United States government. It was only in the 1980's that the country finally managed to free itself from this vice like grip of political oppression. Since then politics has prospered more or less satisfactorily, bar a minor hiccup or two. At the start of the 20<sup>th</sup> Century President Roosevelt was keen to expand America's presence in Central America and the Caribbean under the banner of the Monroe Doctrine. The Dominican Republic became a key focus as it was felt that it was crucial to defending the newly built Panama Canal. For the next 30 years the United States forcibly tried to control the country either through puppet presidents or force by military invasions. Then, in 1930, with the backing of the United States, General Rafael Leonidas Trujillo Molina took power, in what would turn out to be one of the bloodiest dictatorships to ever befall the Americas. For over 30 years Trujillo ruled the Dominican Republic with an iron fist. Some of the worst atrocities and killings ever recorded happened under rule. He renamed the capital Santo Domingo to Ciudad Trujillo and many other cities, place names and plazas were named after him or his extended family. By the 1950's he had sucked so much wealth out of the economy that he was considered one of the wealthiest men in the world. In 1937 he ordered the massacre of nearly 40,000 Haitians who were living on the Dominican Republic side of the border in what was an act of genocide. In 1960, one year before he was assassinated, he ordered the brutal murder of three of the four Maribal sisters who were famously opposed to his dictatorship. The International Day for the Elimination of Violence Against Women is observed on the anniversary of their deaths.

By the late 1980's the Dominican Republic had finally begin to move away from its brutal past. The left of centre socialist party, Dominican Revolutionary Party, managed to win various elections putting an end to the right wing military dictatorships. Since 2002 it has held power with the current President Leonel Fernandez winning a second term in 2008. One term constitutional restrictions to re-election were rescinded by the Supreme Court in a few years earlier. Fernández is seen by many Dominicans as a forward and innovative thinker who is focused on reform. He has helped enhance Dominican participation in hemispheric affairs, such as the Organization of American States.



## Economic

The Dominican Republic is an upper middle-income developing country and it has the second largest economy in Central America and the Caribbean. The main sectors of the economy are agriculture, the service sector and tourism. The Dominican Republic is now one of the most popular tourist destinations in the Caribbean. After a chaotic period in the 1980's the economy began to take off in the 1990's which coincided with world growth. However the collapse of the country's second largest bank, Baninter, in 2002 caused the economy to slip into recession again. The economy has recovered from that setback and is growing strong again, reporting growth of 7.8% in 2010. The main economic challenges ahead are to modernize the transport system and local infrastructure which are out of date and hampering future growth prospects. A metro system, only the second to be built in the Caribbean after Puerto Rico, has recently been completed with further extensions planned.

### Key Statistics

Population	10.2 million
GDP	\$51bn
GDP growth	7.8%
GDP per capita	\$5,044
Inflation	1.4% (2009)
Unemployment	14.2% (2008)
Public Debt	N/A
FDI	\$2bn
Foreign Reserves	\$3bn
Ease of doing Business	91 <sup>st</sup>
Credit Rating	B+
Irish exports	\$9 million

## Ecuador



### Overview

Ecuador is one of South America's smallest countries located on the equator in the north western corner of South America high up in the Andes. It has a population of 14 million and is bordered by Colombia to the north and Peru to the south. Quito is the capital city and has been designated a World Heritage Site by the UN. The largest city and also the commercial capital of the country is Guayaquil, a large port in the south west of the country. Ecuador is a representative democracy with a multi-party system with the President as the head of state and executive, who is elected to for 4 years with the possibility of one concurrent term.

### Political

Ecuador's political parties have historically been small, loose organizations that depended more on populist, often charismatic, leaders to retain support than on programs or ideology. However, a pattern has emerged in which administrations from the center-left alternate with those from the center-right. Although Ecuador's political elite is highly factionalized along regional, ideological, and personal lines, a strong desire for consensus on major issues often leads to compromise. Beginning with the 1996 election, the indigenous population abandoned its traditional policy of shunning the official political system and participated actively. The indigenous population has established itself as a significant force in Ecuadorian politics. Rafael Correa became the first indigenous President to be elected when he won the 2006 election and he was re-elected in the 2009 election for another 4 year term.

Correa has aligned himself firmly on the left of Latin American politics with fellow populists Hugo Chavez and Evo Morales. Since Correa has been President ties with Colombia and the United States have deteriorated rapidly. Only recently the US Ambassador was expelled from Ecuador after WikiLeaks cables suggested that Correa was involved in corruption. Correa has become increasingly authoritarian in recent years especially in his dealings with the press who has fought a long running battle with. Correa recently sued El Universo, one of the country's largest publications, after they called him a dictator. Bizarrely, the court awarded Correa \$40m in damages and sentenced three of the papers staff to jail. The case is being appealed. In a previous case Correa received \$600,000 damages from suing a bank which had incorrectly put his name on a list of credit card defaulters. He used the money to purchase an apartment in Belgium. It is unclear yet if Correa will attempt to run for a third term, which at the moment would be unconstitutional. He recently passed a referendum on the constitution which further consolidated his control over the courts and the media.

## Economic

The economy of Ecuador is based mostly on the export of bananas, oil, shrimp, gold, other primary agricultural products and money transfers from nearly a million Ecuadorian immigrants employed abroad in the United States and Spain. Ecuador's export market is evenly spread amongst the US, EU, Latin America and Asia. In 1999, Ecuador suffered a severe economic crisis, with GDP contracting by 5.3%. Poverty increased significantly, the banking system collapsed, and Ecuador defaulted on its external debt. In March 2000, Congress approved a series of structural reforms that also provided for the adoption of the US dollar as legal tender. Dollarization stabilized the economy, and positive growth returned in the years that followed, helped by high oil prices, remittances, and increased non-traditional exports.

Ecuador is substantially dependent on its petroleum resources, which have accounted for more than half of the country's export earnings and approximately one-third of public sector revenues in recent years. From 2002-06 the economy grew an average of 5% per year, the highest five-year average in 25 years. After moderate growth in 2007, the economy reached a growth rate of 7.2% in 2008, in large part due to high global petroleum prices and increased public sector investment. In 2008 President Correa defaulted on Ecuador's sovereign debt of US\$3.2 billion. In May 2009, Ecuador bought back 91% of its "defaulted" bonds via an international auction.

Like his Andean compatriot Morales, economic policies under the Correa administration - including an announcement in late 2009 of its intention to terminate 13 bilateral investment treaties, including one with the United States - have generated economic uncertainty and discouraged private investment. The Ecuadorian economy contracted 0.4% in 2009 due to the global financial crisis and to the sharp decline in world oil prices and remittance flows but recovered to a 3.6% in 2010.

## Key Statistics

Population	13.7 million
GDP	\$59bn
GDP growth	3.6%
GDP per capita	\$4,277
Inflation	5.2% (2009)
Unemployment	6.5% (2009)
Public Debt	21.8%
FDI	\$316 million
Foreign Reserves	\$3.8bn
Ease of doing Business	130th
Credit Rating	B-
Irish exports	\$9 million

## El Salvador



### Overview

El Salvador is the smallest and most densely populated country in Central America. It is located on the Pacific coast of Central America with Guatemala to its north and Honduras to the east. It has a population of 5.8 million and the capital and largest city is San Salvador. While it is ranked number 3 in Central America on the UN Human Development Index it also has the highest murder rate in the world as crime has soared recently due to the spread of the drugs war. El Salvador is a multi-party system democracy with the President elected as head of the executive and legislative powers held by an elected assembly. The President may only serve for one 5 year term after which he must stand down.

### Political

Throughout the 20<sup>th</sup> century politics in El Salvador has been a constant battle between right-wing military dictatorships (backed by the US) and a mix of various leftist groups. This struggle for El Salvador culminated in a brutal civil war in the 1980's in which 75,000 people were killed. In the 1970's there were serious tensions between the military and left wing groups as more and more people were murdered or disappeared by various death squads. In 1979, in a pre-emptive move the Junta Revolucionaria de Gobierno (Revolutionary Government Junta) overthrew the incumbent government. In response to this 5 groups on the left formed the Farabundo Marti National Liberation Front (FMLN). A civil war ensued which lasted until 1992. On January 16, 1992 with the international community present the rebels and the military signed a peace agreement in Mexico. The peace agreements included reduction of the Army, the dissolution of the National Police, Treasury Police, National Guard, and the Civilian Defence, a paramilitary group.

Since then El Salvador has enjoyed a stable democracy and the FMLN has been successfully integrated into the political system. For the next 15 years or so the right leaning Nationalist Republican Alliance (ARENA) party won every election. But in 2009 the FMLN won their first ever election when former journalist Mauricio Funes was elected president. Economic reforms since the early 1990s have brought major benefits in terms of improved social conditions, diversification of the export sector, and access to international financial markets. However, crime remains a major problem and stumbling block to private investment.

### Economic

El Salvador's economy has always been hampered by natural disasters such as earthquakes and hurricanes, but the economy has been steadily growing in the last decade. However the economy



suffered from the global recession and GDP growth was only 1% last year. Like other Central American economies El Salvador is closely linked to the United States economy which is the main reason for a slowdown in growth. Remittances are crucial to the economy and in 2009 they accounted for 16% of GDP. About a third of all households receive these transfers. In 2006 El Salvador was the first country to ratify the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR), which has bolstered the export of processed foods, sugar, and ethanol, and supported investment in the apparel sector.

El Salvador has promoted an open trade and investment environment, and has embarked on a wave of privatizations extending to telecom, electricity distribution, banking, and pension funds. In late 2006, the government undertook a series of measures to stimulate economic growth and reduce poverty in the country's northern region, the primary conflict zone during the civil war, through investments in education, public services, enterprise development, and transportation infrastructure. With the adoption of the US dollar as its currency in 2001, El Salvador lost control over monetary policy. Any counter-cyclical policy response to the downturn must be through fiscal policy, which is constrained by legislative requirements for a two-thirds majority to approve any international financing, and by already high levels of debt.

### Key Statistics

Population	6.1 million
GDP	\$21.7bn
GDP growth	1%
GDP per capita	\$3,519
Inflation	1.1% (2009)
Unemployment	5.9% (2008)
Public Debt	43.8%
FDI	\$430 million
Foreign Reserves	\$3.1bn
Ease of doing Business	86th
Credit Rating	BB-
Irish exports	\$6.8 million

## Guatemala



### Overview

Guatemala is located in Central America, south of Mexico and north of El Salvador and Honduras. With a population of over 14 million it is the most populous country in the region. Throughout much of the 20<sup>th</sup> century Guatemala endured brutal dictatorships and a 36 year civil war. In the past 15 years, since the end of the civil war, Guatemala has successfully built a modern multi-party democratic system with the President as head of the executive and the state. Due to the destruction brought to the economy throughout the civil war Guatemala is one of Latin America's poorest countries. It is now also one of its most dangerous (along with Honduras and El Salvador) as the violence from the Mexican drug war spreads south.

### Political

Guatemala has a Presidential representative democracy with three branches of power, the executive, legislative and the judiciary. The President is the head of state and they are limited to one four term in office. There is a multi-party system in existence but it is generally unstable and no one party has won the presidency more than once.

In 1954, the democratically elected Guatemalan government of Colonel Jacobo Arbenz Guzmán was overthrown by US backed forces led by Colonel Carlos Castillo Armas who invaded from Honduras. At the time United Fruit Company was the largest company and landowner in Guatemala. However, most of their land was unused and they put artificially low prices on its value so as to avoid paying taxes. The Arbenz government wanted to pursue land reform which included the expropriation of 40% of United Fruit's land which would then be handed over to the local indigenous farming communities. Arbenz also planned a sweeping reform of the labour laws.

The directors of United Fruit Company had lobbied the Truman and Eisenhower administrations that Colonel Arbenz intended to align Guatemala with the Soviet Bloc. U.S. officials had little proof to back their claims of a growing communist threat in Guatemala; however the relationship between the Eisenhower administration and United Fruit demonstrated the influence of corporate interest on U.S. foreign policy. United States Secretary of State John Foster Dulles was an avowed opponent of Communism and his brother was a board member of United Fruit as well as being the head of the CIA. As a result the United States backed a CIA led coup which plunged Guatemala into a 36 year civil war.

In the years that followed various US backed generals ruled Guatemala in the form of military dictatorships. The country quickly descended into one of the most violent countries in Latin America. Leftist and Marxist guerrilla groups sprang up in the countryside in an attempt to overthrow these dictatorships. This in turn led America to provide more military aid to the government which brought further violence and destruction to the country. Death squads became common place as the military powers fought an on-going war against the guerrillas. The Guatemalan people were caught in the



middle and often suffered the consequence as they were accused of providing support and shelter to the guerrillas. The military also used the excuse of the guerrillas to peruse a policy of “scorched warfare” and genocide against the indigenous communities.

The violence finally came to an end when the UN brokered a peace deal with the rebels and the government in 1996. The rebel groups agreed to lay down their arms in return for land. A UN truth commission later showed that 93% of the violence committed in the civil war was perpetrated by government backed militias and death squads. Over 150,000 people had been murdered, 50,000 were still missing and 1 million people had been displaced because of the conflict. In a chilling sign that it would be a while yet before normality returned to the country, a week after the publication of the Truth Commissions report, its author, 75 year old Bishop Juan Gerardi, was brutally assassinated in his home.

In the 2008 elections Alvaro Colom of the social democratic National Unity Party of Hope, was elected. Colom has concentrated on expanding social programs and access to health, education, and social security. Guatemala has made major progress since the end of the civil war but it will be a while yet before the ghosts of the past are laid to rest.

### **Economic**

After years of civil war and military conflict Guatemala signed the final peace accords in 1996 thereby creating the opportunity for economic growth in the future. Since the late 1990's GDP has doubled in growth and now stands at \$41bn. Since then Guatemala has pursued important reforms and created a stable macro-economic environment. The economy is still heavily reliant on typical sectors such as the export of coffee, sugar and bananas. However, over the past several years, tourism and exports of textiles, apparel, and non-traditional agricultural products such as winter vegetables, fruit, and cut flowers has grown. In recent years Guatemala and other Central American economies have been able to provide US companies an attractive alternative to Mexico for its production plants. Guatemala, like its neighbours, also relies on a large expatriate community based in the United States, and it is the top remittance recipient in Central America, with inflows serving as a primary source of foreign income equivalent to nearly two-thirds of exports. Guatemala's economy is dominated by the private sector, which generates about 85% of GDP. Most manufacturing is light assembly and food processing, geared to the domestic, U.S., and Central American markets. The United States is the country's largest trading partner, providing 36% of Guatemala's imports and receiving 40% of its exports.

However, many problems still remain. Continuing high crime rates are hindering economic growth. Illiteracy and education levels remain worryingly low. High levels of investment are also needed in infrastructure, particularly in the transportation, telecommunications, and electricity sectors. Like all of Latin America Guatemala remains an extremely unequal society. According to the UN Guatemala has the fourth highest rate of chronic malnutrition in the world and the highest in the Western Hemisphere. Approximately 75% of Guatemalans live below the poverty level and 58% of the population have incomes below the extreme poverty line. Outside of the capital, Guatemala City, where many indigenous people live, 70% of children under age 5 are malnourished.



## Key Statistics

Population	14.3 million
GDP	\$41bn
GDP growth	2.6%
GDP per capita	\$2,865
Inflation	1.9% (2009)
Unemployment	1.8% (2006)
Public Debt	23.4%
FDI	\$559 million
Foreign Reserves	\$5.2bn
Ease of doing Business	101 <sup>st</sup>
Credit Rating	BB+
Irish exports	\$5.8 million

## Honduras



### Overview

Honduras has a population of 7.6 million people and is located in Central America on the eastern side where it overlooks the Gulf of Honduras, a large inlet of the Caribbean Sea. The country is bordered to the west by Guatemala, to the southwest by El Salvador, to the southeast by Nicaragua and it also has a small coast on the Pacific side. The capital is Tegucigalpa while the commercial capital is San Pedro Sula in the north. It was previously known as Spanish Honduras to distinguish it from British Honduras which is now Belize. According to the constitution, Presidents may not run for re-election.

### Political

Like many other Central American countries the history of Honduras in the 20<sup>th</sup> Century has been full of bloodshed, civil war, nefarious American influence, military dictatorships, and finally, democracy. In the early part of the 20<sup>th</sup> century large US companies such as the United Fruit arrived in the region to take advantage of the large Banana growing industry. During this time they gradually began to exert more and more influence over local politicians and indeed politicians in Washington who they convinced it was in their interest to forcibly protect American business interest abroad. From 1932 until 1954 the President Tiburcio Carías Andino ruled Honduras. Although initially elected in fair and peaceful elections he quickly turned authoritarian with the support of the US banana companies. It was a chaotic time, as economic fluctuations such as the price of bananas caused unease, plus there was a constant feeling of revolution in the air whether it was unions, farm workers, communists, liberals or the army, but society itself seemed generally on edge. After being encouraged by the United States to step aside to bring some order to the political environment Carías stepped down and for the next 30 years or so, via a “Football War” with El Salvador, Honduras was under military rule.

By the 1980’s civilian rule finally returned to Honduras and it has remained in place ever since. Political drama returned to Honduras in 2009 with a serious constitutional crisis. Incumbent left-wing President Manuel Zelaya seemed to be attempting to change the constitution through referendum in order to serve a second term as President but all his attempts were blocked by the Supreme Court. However before he could continue with his plan he was arrested by the army and sent to Costa Rica. Roberto Micheletti, a former President of the Congress, was quickly installed as caretaker President. The arrest and deportation of the Zelaya was widely criticised in the international community and the new caretaker government was not recognized by the international community. An agreement was eventually brokered by Oscar Arias of Costa Rica and elections were held at the end of 2009. Porfirio Lobo, from the centre-right conservative National Party, was elected as the new President. However, many Latin American countries failed to recognize his Presidency as valid due to the circumstances surrounding the removal of Zelaya.

## Economic

Like most of the Central American economies (and unlike South American) the economy of Honduras is closely linked to that of the United States. Two thirds of FDI comes from America and the remittances of Hondurans working in the United States accounts for 27% of GDP. In the early part of the 20<sup>th</sup> century the economy largely consisted of mining and the export of bananas. By the 1950's the government successfully diversified away from these two industries and a more diversified export economy with products such as beef, cotton, sugar, coffee and timber began to flourish. However by the 1980's the cold war in Central America was reaching boiling point. This had disastrous effects on the local economies as military dictatorships, propped up by the United States, began to increase military spending to 20% to 30% of the government budget. Honduras was also a large recipient of economic aid from the United States which caused further problems as this enabled the army to maintain a strong grip over the country which further damaged the economy.

By 1985 Honduras, one of the smallest countries in the world, was the tenth largest recipient of US aid as it received over \$200 million from the United States. The economic consequences of the cold war conflicts discouraged private investment and encouraged capital flight. The wider debt crisis in Latin America also caused problems as did the sharp drop in commodity prices such as coffee. By the late 1980's over 75% of the Honduran population were considered poor by UN standards. By the 1990's with the end of the cold war and an end to the military conflicts Honduras was slowly able to rebuild its economy with a peaceful democratic system in place. Coffee once again became key to the economy as did the export of bananas. The opening of new trade markets in particular the EU has helped economic growth and at the same time Honduras has become an attractive low cost manufacturing base for the clothes industry. However, the legacy of the 1980's is that Honduras remains one of the poorest countries in the Western Hemisphere.

### Key Statistics

Population	7.6 million
GDP	\$15.4bn
GDP growth	2.6%
GDP per capita	\$2,022
Inflation	5.5% (2009)
Unemployment	2.9% (2007)
Public Debt	23.7
FDI	\$500 million
Foreign Reserves	\$2.5bn (2008)
Ease of doing Business	131 <sup>st</sup>
Credit Rating	B
Irish exports	\$600k

## Mexico



### Overview

Mexico is the largest Spanish speaking country in the world and with a population of 109 million is the world's 11<sup>th</sup> most populous nation. It is bordered by the United States to the north and by Guatemala and Belize to the south. Mexico is now the 11<sup>th</sup> largest economy in the world with a GDP of over \$1 trillion. Alongside Brazil it is one of the economic superpowers of Latin America. It is an upper middle income country and in 1994 became the first Latin American country to join the OECD. In recent years it has had to deal with an increasingly dangerous and violent drug war which has already claimed over 40,000 lives. Yet it remains the 10<sup>th</sup> most popular tourist destination in the world and is 5<sup>th</sup> in the world for number of UNESCO World Heritage Sites.

### Political

Mexico is a federal presidential representative democratic republic with the president of Mexico both head of state and head of government. The federal government represents the United Mexican States and is divided into three branches: executive, legislative and judicial, as established by the Political Constitution of the United Mexican States, published in 1817. Mexico has one of the most developed political systems in Latin America and is highly regarded for its strong political institutions.

The two main parties in Mexico are the National Action Party (PAN), a right of centre party and the Institutional Revolutionary Party (PRI), a centrist party. Throughout the 20th century the PRI, a centrist party, had an almost hegemonic power at the state and federal level, which slowly began to recede in the late 1980s. It wasn't until 1989, that the first non-PRI governor of a state was elected (at Baja California). It was in 1997, that PRI lost its absolute majority in Congress, and in 2000 the first non-PRI president, Vicente Fox, was elected since 1929.

Following the 1929 revolution the PRI was formed and the party began to rebuild the country into what is its present state. Land was distributed to peasants and farmers, the oil companies were nationalized, social welfare was established and national industries were protected.

The presidential elections held in 1988 marked a watershed in Mexican politics, as they were the first serious threat to the party in power by an opposition candidate, Cuauhtémoc Cárdenas, a defector from the ruling PRI and son of former President Lazaro Cardenas, who was nominated by a broad coalition of leftist parties. He officially received 31.1 percent of the vote, against 50.4 percent for Carlos Salinas de Gortari, the PRI candidate.

The current President Felipe Calderon, a member of the National Action Party, was elected in 2006. Calderon is considered a very stable and strong president. Calderon's presidency has been most notable for its aggressive war on the drug cartels which has caused over 40,000 deaths in the past few years. While many of the cartel leaders have been shot or imprisoned the flow of drugs has not stopped and violence has only increased. He has continued the close relationship with the United States although there is increasing tension with the Republican Party about the immigration issue. At

the same time Mexico has built up a very strong relationship with Brazil which has helped to negate the influence of Hugo Chavez in the region. Strong, stable and independent leadership over the past 10 years has enabled Mexico, along with Brazil, present a mature and well respected image of Latin America to the outside world.

## **Economic**

Mexico has a free market economy in the trillion dollar class. It contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. Per capita income is roughly one-third that of the US. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, Mexico's share of US imports has increased from 7% to 12%, and its share of Canadian imports has doubled to 5%. In 2007, during its first year in office, the Felipe Calderon administration was able to garner support from the opposition to successfully pass pension and fiscal reforms. The administration passed an energy reform measure in 2008 and another fiscal reform in 2009.

The world recession hit Mexico hard as world demand for exports dropped, asset prices tumbled, and remittances and investment declined. Mexico's economy is closely linked to that of the United States and as a result Mexico suffered the steepest recession of any country in the Americas. Its economy shrank by 6.5% in 2009. Between the third quarter of 2008 and the second quarter of 2009, 700,000 jobs were lost, 260,000 of them in manufacturing. The slump was deepest in the prosperous north.

GDP posted positive growth of 5% in 2010, with exports - particularly to the United States - leading the way, while domestic consumption and investment lagged. According to the World Bank Mexico is the easiest place in Latin America to do business and the 35th-easiest in the world, ahead of Italy and Spain. In Brazil (placed 127th) companies spend 2,600 hours a year filing taxes, six times more than in Mexico. Registering a business takes nine days in Mexico and 26 in Argentina. These strengths have helped the economy to rebound from gloomy 2009.

Some look at the recent explosive growth of Brazil and wonder if it is time to follow its example and look to new markets. In 2009 only 3% of Mexico's exports went to Brazil, Russia, India or China, whereas Brazil sent 16% of its exports to its fellow BRICs. Industrialised countries receive less than half of Brazil's exports but 90% of Mexico's. The Inter-American Development Bank, the biggest lender in the region, describes a "two speed" Latin America, in which economies, such as Mexico, which does most of their trade with developed countries, lag behind those, such as Brazil, that have forged links with emerging markets.

Luring foreign investors has been made trickier by violent drug war. Since 2007, a crackdown on organised crime has caused Mexico's drug cartels to splinter and fight. Last year the murder rate was 17 per 100,000 people, a little lower than Brazil's, but more than two-thirds up on 2007. Ernesto Cordero, the finance minister, has estimated that the violence knocks about a percentage point off Mexico's annual growth rate. Despite Mexico's difficulties, one of its citizens is the richest person in the world. Carlos Slim, the son of a Lebanese immigrant, has made a fortune estimated by Forbes at \$74 billion. The magazine reckons that last year his net worth rose by \$20.5 billion.



The administration continues to face many economic challenges, including improving the public education system, upgrading infrastructure, modernizing labour laws, and fostering private investment in the energy sector. Calderon has stated that his top economic priorities remain reducing poverty and creating jobs.

### Key Statistics

Population	108.5 million
GDP	\$1 trillion
GDP growth	5.5%
GDP per capita	\$9,580
Inflation	5.3% (2009)
Unemployment	5.2% (2009)
Public Debt	35.4%
FDI	\$14.4bn
Foreign Reserves	\$100bn
Ease of doing Business	35th
Credit Rating	A-
Irish exports	\$466 million

## Nicaragua



### Overview

Nicaragua is the largest country in Central America and is bordered by Honduras to the north and Costa Rica to the south. The population in Nicaragua, hovering at approximately 6 million, is multi-ethnic. Roughly one quarter of the population lives in the capital city, Managua, making Managua the second largest city in Central America after Guatemala City. Nicaragua is a presidential representative democratic republic, in which the President of Nicaragua is both head of state and head of government, and there is a multi-party system. Executive power is exercised by the government. Legislative power is vested in both the government and the National Assembly. The judiciary is independent of the executive and the legislature.

### Political

For most of the early 20<sup>th</sup> century United States sent army forces to support conservative governments in Nicaragua. At the time the US government was concerned about the left wing threats to US business interests and to the Panama Canal. As a result it backed right-wing politicians and Generals with political, financial and military support. From 1927 until 1933, Gen. Augusto César Sandino led a sustained guerrilla war first against the Conservative regime and subsequently against the U.S. Marines, who withdrew upon the establishment of a new Liberal government. When the Americans left in 1933, they set up the Guardia Nacional (National Guard), a combined military and police force trained and equipped by the Americans and designed to be loyal to U.S. interests. One of the leaders of this National Guard appointed by the US was General Anastasio Somoza García.

In 1937 the Somoza family came to power with the backing of the US army. Somoza slowly eliminated officers in the National Guard who might have stood in his way, and then became president on January 1, 1937 in a rigged election. Somoza was 35 at the time. With strong support from the United States Somoza and his family managed to hold on to power until 1979. Somoza was assassinated by a liberal poet in 1954 but his sons managed to retain control of the country.

In the 1960's the Sandinista National Liberation Front (FSLN) was founded in an attempt to overthrow the dictatorship. Named after the rebel General Sandino, it was an outlawed left-wing political movement that remained relatively small until the mid-1970. By then public opinion, in particular the local business elite, of the Somoza dynasty were becoming less and less tolerant as corruption increased. In 1978, the editor of La Prensa, a leading newspaper and ardent critic of the Somoza regime was assassinated. This turned a lot of public opinion against the regime and soon after in 1979 the Sandinistas took power with a large section of society and regional governments backing them. Current President Daniel Ortega was one of the most important leaders of the Sandinistas.



When Ronald Regan became President in 1981 he immediately set out to overthrow the Sandinista government as he was concerned about their links to Cuba and the Soviet Union. Under the Reagan Doctrine, his administration authorized the CIA to have paramilitary officers from their elite Special Activities Division begin financing, arming and training rebels, some of whom were the remnants of Somoza's National Guard, as anti-Sandinista guerrillas that were branded "counter-revolutionary" by leftists (contrarevolucionarios in Spanish), hence the name Contras. The Contras operated out of camps in the neighbouring countries of Honduras to the north and Costa Rica to the south. The U.S. also sought to place economic pressure on the Sandinistas, and the Reagan administration imposed a full trade embargo. After the U.S. Congress prohibited federal funding of the Contras in 1983, the Reagan administration continued to back the Contras by covertly selling arms to Iran and channelling the proceeds to the Contras (the Iran–Contra affair). When this scheme was revealed, Reagan admitted that he knew about the Iranian "arms for hostages" dealings but professed ignorance about the proceeds funding the Contras. His National Security Council aide Lt. Col. Oliver North took much of the blame.

Since the 1990's the war between the right and left as largely being replaced by the ballot box although the country has still not fully progressed to an open democratic system like its neighbours. Daniel Ortega, as FSLN candidate, became President for a second time when elected at the last election in 2007. His time in power has seen a stark deterioration in the democratic process and political corruption is rife. Ortega has also formed a strong friendship with Chavez largely due to the cheap oil on offer from Venezuela.

### **Economic**

Nicaragua is the poorest country in Central America and the second poorest in the Western Hemisphere. The US-Central America Free Trade Agreement (CAFTA) has been in effect since April 2006 and has expanded export opportunities for many agricultural and manufactured goods. Textiles and apparel account for nearly 60% of Nicaragua's exports. Since Ortega was re-elected President private investment has decreased and corruption has increased dramatically. Ortega's administration has pursued a number of shady business deals with Venezuela, centered on oil, which have enriched the President and his close circle of friends and family. The weak rule of law and unstable business climate created by Ortega is an impediment to future growth. Nicaragua relies on international economic assistance to meet internal and external-debt financing obligations. Foreign donors have curtailed this funding, however, in response to November 2008 electoral fraud. Managua has an IMF extended Credit Facility program, which could help keep the government's fiscal deficit on target during the 2011 and encourage transparency in the use of Venezuelan off-budget loans and assistance. In early 2004, Nicaragua secured some \$4.5 billion in foreign debt reduction under the Heavily Indebted Poor Countries (HIPC) initiative; however, Managua still struggles with a high public debt burden. Nicaragua is gradually recovering from the global economic crisis as increased exports drove positive growth in 2010. The economy is expected to grow at a rate of about 3% in 2011



### Key Statistics

Population	5.8 million
GDP	\$6.5bn
GDP growth	4.5%
GDP per capita	\$1,125
Inflation	3.7% (2009)
Unemployment	5% (2007)
Public Debt	79%
FDI	\$434 million
Foreign Reserves	\$1.5bn
Ease of doing Business	117th
Credit Rating	N/A
Irish exports	\$722k

## Panama



### Overview

Panama has a population of just over 3 million and is located at the southernmost tip of Central America where it has Colombia on its southern border and Costa Rica on its northern border. When the Americans decided to build the canal through Panama it became one of the most strategically important countries in Latin America. Up until 1989 when General Noriega was overthrown in the American invasion Panama was very much under the influence of America. After Noriega was sent to Prison in Miami Panama held its first proper elections and ever since then peaceful democracy has flourished.

### Political

Following the US led overthrow of the Dictator General Noriega in 1989 Panama has made a smooth transition to democracy. It has a multi-party system made up of centre-left and centre right parties all very similar in ideology, very pro-business and very pro-America. Panama is probably the most apolitical of all Latin American countries. Unlike other Central American countries it had no civil wars in the 20<sup>th</sup> century and as a result it escaped the bloody upheavals that other countries experienced.

Because of Americas strong military presence there and the positive economic effects of the Panama Canal the country developed a modern economy which was one of the reasons why the political environment stayed so benign throughout the 20<sup>th</sup> century. Various left-wing and union led protests in the 1960's were quickly put down and society gradually became apathetic towards the political system and instead concentrated on the economic benefits of their situation. Another important aspect is that Panama is physically isolated, unlike the rest of the Central American countries. Its southern border with Colombia is a wild jungle region called the *Darrien* which cannot be crossed by land. To the north it only has one border with Costa Rica which has historically being the Central America Switzerland in the region thereby creating a buffer from the troubles further north.

Presidents are elected every five years for one non-renewable term. There are very little ideological differences between the main parties which are all close to the centre and pro-business and pro America. The most recent election of 2009 saw supermarket tycoon Ricardo Martinelli elected with a 60% majority.

### Economic

Panama has one of the strongest economies in the region with GDP growth in the last few years at the 10% mark. The economy is very much based on a well-developed service industry; mainly banking, insurance, the Panama Canal and the Colon free trade zone. The majority of the economy is centered in Panama City, the capital, which is often compared to a Latin American Singapore or Hong Kong, not only because of its success as a small open economy but also because of its

spectacular skyline. Panama City itself is a very modern and developed city. Most of the world's banks and insurance companies have offices there and the population is young, well-educated and fluent in English. At weekends most of those young people can be seen in the largest shopping mall in Central America where they browse luxury shops such as Louis Vuitton and Hermes.

Panama has been relatively unscathed by the drug war which is currently encroaching down from Mexico. This is mainly because of its physical isolation from the rest of Central America. However, while the drug violence is not as extreme as in other countries the flow of drug money is firmly evident and it is widely considered that the Panamanian banking system continues to facilitate the laundering of cartel money. One noticeable impact of this has been the extraordinary boom in real estate in Panama City where 60 and 70 story apartment buildings seem to continuously pop up on every street corner.

Outside of Panama City and the Colon Free Trade Zone on the Atlantic coast there is very little economic activity other than tourism. In that sense Panama is very similar to Costa Rica as it tries to build itself up as an international eco-tourism location. Tucomen International airport is a regional hub with daily direct flights to all major US cities, Europe and all of South America making Panama a very attractive location as a regional headquarters.

The canal is currently being doubled in size. However, while the economy is doing well now there are worries about the current administrations management of the boom. In particular there is a lot of uneasiness about President Martinelli as he becomes increasingly belligerent towards the independent judiciary and his "many enemies" real and fictitious. Numerous foreign journalists have been expelled from the country for criticizing him. While this is a far cry from Venezuela down the coast there are increasing worries about Martinelli himself and what he will do in the future. Some are concerned that he might even use the canal as a populist cash cow as the next election gets closer.

### Key Statistics

Population	3.5 million
GDP	\$26.7bn
GDP growth	7.5%
GDP per capita	\$7,632
Inflation	2.4% (2009)
Unemployment	5.9% (2008)
Public Debt	43.7%
FDI	\$1.7bn
Foreign Reserves	\$3bn
Ease of doing Business	72 <sup>nd</sup>
Credit Rating	BBB-
Irish exports	\$13.2 million

## Paraguay



### Overview

Paraguay is a landlocked country in the heart of South America near the historic Iguazu Falls. It is bordered by Argentina to the south and southwest, Brazil to the east and northeast, and Bolivia to the northwest. It has a population of 6.4 million and the capital is Asuncion. Uniquely among Spanish speaking Latin America it has two official languages, Spanish and Guarani. It has a representative democratic multi-party system with three branches of power – the executive, legislative houses and the judiciary. In the 1860's it was involved in the bloodiest war in Latin America, the triple war with Brazil and Argentina which caused the country huge devastation.

### Political

The political system is a presidential representative democratic republic with three branches of power; the executive, the legislative (based on two chambers of Congress) and an independent judiciary. The president is elected for a 5-year term and they may not seek re-election to office.

Paraguayan life in the 20<sup>th</sup> century was dominated by Alfredo Stroessner Matiauda, who was a Paraguayan military officer and dictator from 1954 to 1989. His lengthy rule was the 14th-longest ever by state leaders other than monarchs. Only Fidel Castro has been in power longer than him in Latin America. Stroessner took power in a coup d'état in 1954 when he overthrew President Federico Chávez. He was an anti-communist and from his first year in power he subjected the country to a state of siege, restricting the constitution and exercising almost complete power over the country. He said that his actions were necessary in order to protect the country from communist threats. Torture of political opponents, in particular the communist party, and the persecution of indigenous groups was common. At the same time, the country was relatively stable during this period and as he aged he relaxed some of his iron grip on the country. A darker side of his regime was his affinity for Nazism and his open invitation to its former WW 2 leaders to take refuge in Paraguay. On February 3, 1989, only a few months after being elected to his ninth full term, Stroessner was ousted by a coup d'état led by General Andrés Rodríguez. He fled to Brazil where he lived in exile and died in 2006 at the age of 93.

The historic presidential elections of 2008 were won by Fernando Lugo, a Roman Catholic Bishop who ran as the candidate of the The Patriotic Alliance for Change, a patchwork of left-leaning parties. It was only the second time in Paraguay's history that a left-wing candidate had been elected President. It was also the first time in 61 years that the Colorado Party, the dominant right leaning conservative party, lost a presidential election in Paraguay. As a Roman Catholic Bishop Lugo had to resign his obligations to the Vatican which at first refused his request but later relented. In 2009 Lugo admitted he was the father of a child conceived with Viviana Carrillo, age 26, while he was still a Roman Catholic Bishop. Although to date little progress has been made in tackling corruption and encouraging land reform (two of the main promises of Lugo's presidential campaign), a number

of initiatives have been introduced to improve the lives of Paraguay's poor, such as investments in low-income housing, the introduction of free treatment in public hospitals and the introduction of a cash transfer scheme to Paraguay's poorest citizens similar to that of *Bolsa Familia* in Brazil.

## Economic

Traditionally isolated and under populated, Paraguay was one of the last countries in Latin America to enjoy the region's rapid growth in the post-World War II period. Paraguay entered a phase of sustained economic growth in the late 1950s. Its economy grew at the fastest pace of all the Latin American countries during most of the 1970s as the Paraguayan-Brazilian project, Itaipú, the world's largest hydroelectric plant, was constructed. Paraguay relies almost solely on hydroelectric power to meet its energy needs. The dam is located on the Paraguay River, and Paraguay and Brazil evenly share the ownership, operation, and electricity generated. During the 1970's, cotton and soybeans came to dominate agriculture, mostly as a result of high export prices. Paraguay's economy also was characterized by a large underground sector, in which smuggling and contraband have become common, in particular in the border town, Ciudad del Este. The most important component of the Paraguayan economy is the farming sector, which contributes c. 30% to GDP. It is Paraguay's largest and most consistent source of employment, employing about 45% of the working population. Paraguay produces enough basic food to be largely self-sufficient. Corn, cassava, and wheat are the main food crops for local consumption. The global surge in grain prices 2007/2008 was a major impulse for the agricultural sector.

Most enterprises are small, micro and individual ones, including subsistence jobs like street vendors. Only 4% of the Paraguayan labour force works in companies with more than 50 employees. Paraguay's banking and financial services industry is still recovering from the liquidity crisis of 1995, widespread corruption and fraud resulted in the closure of several significant banks. Reform efforts led IMF and World Bank helped restore some credibility to Paraguay's banking industry. Paraguay has a long history as a money-laundering centre. The government has taken steps to curb the problem, but enforcement of anti-laundering legislation remains inconsistent

## Key Statistics

Population	6.4 million
GDP	\$18.4bn
GDP growth	15.3%
GDP per capita	\$2,860
Inflation	2.6% (2009)
Unemployment	5.6% (2008)
Public Debt	N/A
FDI	\$204 million
Foreign Reserves	\$3.8bn
Ease of doing Business	106th
Credit Rating	BB-
Irish exports	\$658k

## Peru



### Overview

At more than twice the size of France, Peru is South America's third largest country. Following a disastrous two decades that included civil war and economic chaos, the country of almost 30 million inhabitants has since 2000 made remarkable progress in re-establishing civilian rule and generating strong economic growth. To the north Peru has a long-standing border dispute with Ecuador that has led to intermittent border clashes over recent decades. It also has a long-standing maritime dispute with Chile to the south which prevents close diplomatic relations with a country that is one of the principle sources of inward investment into the country.

With the fall of the Fujimori dictatorship in 2000 Peru has returned to a genuine multi-party system where power is distributed between a president, congress and the judiciary. The legislature and the judiciary have shown considerable degrees of autonomy but the judiciary in particular easily succumbs to political interference. National government dominates the political stage but there is a halting process of devolving more power to Peru's 25 regions and the capital Lima. Elections for regional governments have seen the emergence of regional political movements at the expense of national parties, a reflection of widespread discontent with the country's politicians. These local administrations have a significant role in deciding a region's attitude to foreign investment.

### Political

The president is elected for one five year term without the right to immediate re-election. The current president is the nationalist former army officer Ollanta Humala of the Peru Wins alliance whose term runs to 2015. The unicameral congress has 130 members. No one party controls the congress forcing them to forge alliances in order to get legislation passed. Rather than creating a consensual political culture this has produced a highly corrupt spoils system. Relations between the presidency and the congress have often been strained.

Peru's economic progress in the last decade has far outstripped the state's ability to keep up with the demands of a rapidly modernising society. This has produced widespread disillusionment and cynicism about politics in general. The victory of Ollanta Humala is a product of this disillusionment. He comes from outside the traditional political system and appeals strongly to the poor third of the population who feel excluded from the benefits of growth as well as nationalists who argue that Peru is offering too generous terms to foreign investment in its key mining sector. Peru's political culture is deeply divided between the wealthier coastal strip centred on the capital Lima which favours market friendly candidates and the poorer, more indigenous interior of the country where discontent with the state and the distribution of national income is more acute and where support for Humala was strongest.



Humala once disdained democracy and admired the Bolivarian Revolution of Hugo Chávez. But since his defeat in presidential elections in 2006 he has undergone something of a political conversion and now says he wants to emulate Brazil's former moderate left-wing president Luiz Ignácio Lula da Silva rather than the increasingly chaotic chavista experiment in Venezuela. His more radical tendencies and those of his party in congress will be restrained by a lack of a majority and his necessary alliance with former president Alejandro Toledo and his Peru Possible party. As a confirmed democrat who was key to the overthrow of the Fujimori dictatorship, Toledo's endorsement of Humala in the second round helped many people to overcome their doubts about Humala's commitment to democracy and push him over the 50% of the poll needed to win.

Toledo's more moderate party has been rewarded with seats in Humala's government and Toledo will likely be a leading candidate in the 2015 presidential race. Peru's right-wing parties are fragmented but count on the overwhelming support of the country's business elite which is made up of small groups who wield enormous economic influence, especially through their control of an unscrupulous media. The defeat of all their candidates in the 2010 election represents a serious challenge to their influence over the political system. But President Humala has strongly indicated that he would rather improve the performance of the state with extra funds coming from an increase in royalties and taxes on the key mining sector rather than abandon the business-friendly, free-market policies of the last decade. His appointment of orthodox economist Miguel Castilla as his finance minister was a clear signal of this intention.

Despite strides made in reintroducing the rule of law following the fall of the Fujimori dictatorship and the defeat of the Shining Path insurgency in the 1990s remnants of the guerrilla group are still active in remote regions where they operate in alliance with drug traffickers. Peru is one of the world's biggest producers of cocaine with the result that corruption and, to a lesser extent, violence associated with drug trafficking is a long-standing and persistent problem. Of more serious concern are tensions between the indigenous peoples of the south central Andes highlands and the state. Poverty and a legacy of racial discrimination have fomented social protest movements that have targeted foreign investment in mining in the region and produced road-blocks and occasional violence. Indigenous groups in the Amazon jungle region have also staged intermitted violent protests against oil and gas exploration in their traditional territory. Such protests have hampered foreign companies in the mining and energy sector but do not involve the targeting of foreign workers.

## **Economic**

In 2011 Peru is expected to grow at a rate of 6.5% and there has been an average growth of 4.4% for the last 10 years in the country. Peru's economy depends mostly on mining and its exports of commodities to China, although other sectors of the economy are growing. Peru is the largest producer of silver in the world, the second largest producer of copper and the sixth largest producer of gold. Other important sectors of the economy are Agribusiness, Tourism, Fisheries, Textiles, Forestry, Real State and Oil & Gas, Metallurgy and Chemical.

Peru has a coast line of over 3000 km and it is the world's largest producer of fish meal and fish oil. The Humboldt Current makes the Peruvian sea one of the richest seas in the world and suitable for development of aquaculture. Several products are being developed in the past years like scallops,

prawns, etc. There is also aquaculture in rivers and lakes; the trout production has become important in the past years.

Tourism is also very important as Peru has great culture heritage. Peru was centre of the several pre Inca cultures, the Inca Empire, and of the Spanish colonies in South America who's centre was the viceroy of Lima. Machu Pichu is one the most important tourist destinations in South America and is a UNESCO World Heritage site. Lima is the gastronomic capital of Latin America and it is well known for its excellent and diverse restaurants.

Peru has a very advantageous geographical position is well positions to become the hub of South-America. Lima is located at 3 to 5 hours of almost every LATAM capital. There's also a good deal of integration with Brazil, and the transoceanic highway finished last year will open a closer way for Brazilian products to reach the Asian countries. Only Mexico ranks higher than Peru in the World Bank Ease of Doing Business Report 2010. Peruvian law guarantees a non-discriminatory treatment for foreign investors; they receive the same treatment as local investors.

The new government raised many doubts among investors who believed Mr. Humala to be an anti system candidate. Nevertheless, his speech moderated and he has given clear signs to the market that he will keep with the stable macroeconomic policies of his predecessor. Proof of this is recent upgrade from S&P, as well as the comments made in most of the economic journals. Mr. Humala wants to improve the distribution of wealth in the country and will finance this through taxes that are being negotiated with mining companies. His coalition with the former president Mr. Toledo has helped him to achieve credibility in the market. He has also chosen well known professionals for key positions. All of these measures have stabilised the international markets view of the economy after the uncertainty of the presidential elections.

### Key Statistics

Population	29.5 million
GDP	\$153bn
GDP growth	8.8%
GDP per capita	\$5,216
Inflation	2.6%
Unemployment	6.8% (2008)
Public Debt	23.9%
FDI	\$4.7bn
Foreign Reserves	\$33.2bn
Ease of doing Business	36th
Credit Rating	BBB+
Irish exports	\$15.5 million

## Uruguay



### Overview

Uruguay is the second smallest country in South America at slightly more than twice the size of the island of Ireland. The country lies on the east bank of the River Plate estuary and its history has been dominated by its two giant neighbours, Brazil and Argentina. Its only land border is with Brazil though several bridges spanning the River Plate link it with Argentina. It has a population of just 3.5 million of which more than a third live in the capital Montevideo. An estimated quarter of the population live abroad, many across the River Plate in Argentina though large Uruguayan communities are also found in Brazil and Spain.

In many respects Uruguay is Latin America's most socially advanced country. It has a large middle class and is ranked by the United Nations the most equal society on the planet's most socially unequal continent. Only Chile ranks as less corrupt and Uruguay is South America's least violent society. Uruguay returned to civilian rule in 1985 after a 12-year military dictatorship. The country is a unitary state with a national government and 19 municipal administrations. A representative democracy, power at the national level is distributed between the president, the national legislature and the judiciary. Uruguay has a deeply embedded civic culture and since the return of democracy has displayed a strong degree of institutional functionality with the legislature and judiciary maintaining a high level of autonomy from the executive.

### Political

The president is elected to one five-year term and cannot stand for immediate re-election. The current president is former left-wing guerrilla José Mujica of the Broad Front alliance whose term runs until March 2015. He is the second left-wing president in Uruguay's history following his predecessor Tabaré Vázquez. The Broad Front also has slim majorities in the country's senate and chamber of deputies. The Front is an inclusive alliance of eleven left-wing political parties that includes centrist progressives, socialists, communists and former Tupamaro guerrillas. Its various components run their own candidates for the senate and lower house with all supporting an agreed candidate for president.

In existence for 40 years the Front has a tradition of painstaking negotiations to agree a common programme for government which once agreed achieves a high level of adherence. This makeup of the alliance also prevents any excessive exercise of executive power. Though widely popular President Mujica remains a first among equals within his alliance. His humble lifestyle and that of his predecessor have helped rejuvenate Uruguay's clean political culture by regional standards, reinforced by an independent judiciary.



Other leading figures within the Frente Amplio include former President Tabaré Vázquez who is the most likely Front candidate to run for the presidency in 2015. His relations with his successor are correct rather than close and he favoured his centrist finance minister Danilo Astori to succeed him. Defeated to the nomination by Mujica, Astori today serves as vice-president. Vázquez would be a formidable candidate as he left the presidency after a successful five-year term with high personal approval ratings. The leading block within the Frente Amplio is Mujica's own Movimiento de Participación Popular, founded and led by former Tupamaro guerrillas. It is currently led by his wife Senator Lucía Topolansky. The MPP's radical and populist tendencies are restrained by the demands of the alliance.

The opposition in Uruguay is formed by the country's two traditional political forces: the National Party (Blancos) and the Colorado Party. Both are traditional parties with populist tendencies rooted in the country's civil wars of the 19th century. The Blancos are the more conservative, rural party while the Colorados are associated with the creation of Uruguay's extensive, and costly, welfare state. The breaking of their near two-century duopoly on power in 2004 with Tabaré Vázquez's election as president has left both movements politically disorientated and unable to capitalise on missteps by the Broad Front government, which has nevertheless maintained a centrist course that emphasises sound fiscal policies while encouraging foreign direct investment.

The government has largely worked well with the key agricultural sector which is the key engine of economic growth. This has encouraged massive inward investment in the sector, especially from Argentine farmers reluctant to invest at home because of government interference in their domestic market buying up large tracts of Uruguayan land. This has led to broad support within the Front government for a new tax on large concentrations of land ownership.

But in broad terms the government has been willing to leave the agricultural sector alone and use taxes on its earnings to fund social programmes. The Front has had less success in modernising other sectors of the economy, especially the large public sector, in part restrained by the major role public sector workers play in the Front's base groupings.

## **Economic**

Uruguay has a very well developed economy similar to that of Panama. It has often been dubbed the Switzerland of Latin America because of its small, well developed and respected economy. It has a strong export orientated agricultural sector and a strong services industry with an internationally renowned banking sector. Uruguay relies heavily on trade with Brazil and Argentina and its economy suffered when the Argentine crisis of a decade ago happened. Cattle, wool and dairy products are key components of the agricultural sector. Beyond the agricultural sector Uruguay has a very strong, modern and well developed software and banking service industry. Due to its highly educated workforce and its lack of corruption it has become a hub for specialist outsourcing in the software industry. It is also a large private banking industry with many of the world's largest banks having offices there. While having a very welcoming attitude towards business Uruguay has at the same time pursued heavy state involvement in the economy and it has resisted the road of privatisation of the state's most valuable assets. This helps the state run its expensive but extremely successful social programmes thereby creating a successful mix of economic management which is now more common in Latin America.



## Key Statistics

Population	3.3 million
GDP	\$40.2bn
GDP growth	8.5%
GDP per capita	\$11,996
Inflation	7.1% (2009)
Unemployment	7.3% (2009)
Public Debt	61.3%
FDI	\$1.2bn
Foreign Reserves	\$8bn
Ease of doing Business	124th
Credit Rating	BB+
Irish exports	\$10.5 million

## Venezuela



### Overview

Venezuela, officially called the Bolivarian Republic of Venezuela, lies on the northern coast of South America. It borders Colombia to the west, Guyana to the east, and Brazil to the south. Its northern coastline of roughly 2,800 kilometres (1,700 mi) includes numerous islands in the Caribbean Sea. Venezuela is a federal presidential republic consisting of 23 states, the Capital District (covering Caracas), and Federal Dependencies (covering Venezuela's offshore islands). Venezuela is among the most urbanized countries in Latin America with the vast majority of Venezuelans live in the cities of the north, especially in the capital, Caracas, which is also the largest city. Since the discovery of oil in the early 20th century, Venezuela has been one of the world's leading exporters of oil. Previously an underdeveloped exporter of agricultural commodities such as coffee and cocoa, oil quickly came to dominate exports and government revenues.

### Political

Throughout the 1970's and 1980's Venezuela's vast oil wealth was more or less squandered or stolen by successive governments and corrupt elites. By the 1990's this feeling of discontent was capitalised on by Hugo Chavez, a former army general, who after a failed coup in 1992 was eventually elected as President in 1998. Chavez has held power ever since except for two days in April 2002, when he had to leave the country in what was ultimately a failed attempt at removing him from power. Since Chavez has been in power he has been a harsh critic of the United States and relations between the two countries are at an all-time low. Chavez has built up strong ties with other left-wing leaders such as Evo Morales, Rafael Correa and Daniel Ortega. This leftist grouping has pursued a strong left wing ideology which is anti-American, anti-business and it is increasingly coming into conflict with the more moderate left wing politics pursued by Lulismo.

The so called "Bolivarian Revolution" is largely possible due to the oil wealth of Venezuela. Chavez has used the lavish oil revenues to peruse populist policies in Venezuela and also abroad where he sells oil for massively deflated prices to countries such as Nicaragua and Honduras. In the past decade Chavez has consolidated his power over Venezuela politics through a number of political manoeuvres and he now has control of the courts and congress. The opposition has been largely ineffective in recent years as it has been disjointed and fractured.

In June 2011, Chavez was reported to have had cancer and since then he has been receiving treatment in Cuba on and off for the last few months. It is unclear what form of cancer Chavez has as the government won't tell but at the moment he is still planning on running in the 2012 Presidential election. In recent years the public have become less enamoured with his "Bolivarian Revolution" as electricity and food shortages have grown but unless the opposition can put forward a credible candidate with national appeal it is likely that Chavez will win.

## Economic

Venezuela has one of the largest economies in Latin America with current GDP worth \$387bn making it twice the size of Irelands economy. While this might be a surprise to many people given all the bad press about Venezuela in the past few years the fact is that it is one of the largest oil producers in the world and has always been a rich country. Notwithstanding the current problems the economy is having Venezuela's long term prospects are very promising given the fact that it reportedly has 10% - 15% of the world's proven oil reserves. The state oil company, PDSVA, which is run by the influential Rafael Ramirez, is the fourth largest oil company in the world.

Venezuela has been unique in Latin America in the last few years as it has been the only country to experience negative growth. The main reason for this has been the anti-business stance of current President Chavez. His "Bolivarian Revolution" has consistently attacked private business over the last decade confiscating land, machinery and investments such as radio and newspapers. This has created an environment where people are afraid to invest and do business. It has caused a large transfer of money from the economy to neighbouring countries such as Panama, Colombia and Brazil. Another cause of economic stagnation has been the fact that Chavez is using the bountiful oil revenues for populist welfare programmes with little re-investment in the economy. The result is that one of the largest oil producers in the world regularly has electricity black outs and food shortages due to the deterioration in the day to day economy.

## Key Statistics

Population	28.8 million
GDP	\$387bn
GDP growth	-1.9%
GDP per capita	\$13,451
Inflation	28.6% (2009)
Unemployment	7.6% (2009)
Public Debt	N/A
FDI	-\$3.1bn
Foreign Reserves	\$34.3bn
Ease of doing Business	172 <sup>nd</sup>
Credit Rating	N/A
Irish exports	\$46.4 million

## Lulismo v Chavismo

For most of the 20<sup>th</sup> century free democratic elections were virtually non-existent in Latin America. Far more than any other region in the world Latin America was known for its military dictatorships, characterized by middle-aged men, in exotic locations such as Caracas or Panama City, in full military dress, a head of full dark hair, tanned and wearing dark oversized sunglasses.

Following the end of the cold war and the globalization of the world economy the region successfully made the transition to democracy. It was a difficult period though, as citizens and politicians alike were adapting to a new phenomenon. On top of that a number of serious economic crises made it difficult to see the true shape of the burgeoning democratic development. Twenty years on from Berlin and it is now clearer to see the direction of democracy in Latin America. Democracy has been readily embraced but there are two roads on which it is heading. These can be defined by the two most important political leaders in the region in the last decade, Lula and Chavez.

Lula was president of Brazil from 2002 to 2010 and he developed a new modern political ideology which is mix of economic stability, private investment and generous social programmes. When elected first international investors balked at the idea of a former union leader leading the region's largest economy. However, Lula quickly calmed their nerves by continuing the prudent and stable economic policies of his successor, President Cardoso. In the following decade, the Brazilian economic boomed ahead, thanks also to the growth of the world economy, in particular China. At the same time Lula spent lavishly on social programmes helping to lift 30 million Brazilians out of poverty. One of the most important ingredients of Lulismo was how it no longer looked to America for guidance but began to believe in the growth and important of Latin America itself. A region that now wanted to be part of the global community.

On the other hand, Chavismo has been a combination of anti-Americanism, populist policies and confiscation of private property. Following Chavez's lead, Ecuador, Bolivia and a number of smaller countries such as Nicaragua elected strong left wing leaders who promised to take back private business and give power to the poor and indigenous peoples. Chavez has been able to spread this message largely due to the fact that he has had a large oil revenue every year which he has spent lavishly (many critics would say grossly misspent) on propping up the local economy and also that of other smaller economies in the region by offering them cheap oil. However, even awash with petro dollars, Chavez has been unable to reverse the depressingly poor performance of the Venezuelan economy. It had the unique position of being the only country in Latin America to record negative growth in 2010. Through a mixture of populism, incompetence, marginalization of the political system and corruption Venezuela is now accustomed to electricity and food shortages.

The recent presidential elections in Peru showed how Chavismo has lost its lustre as the eventual winner Humala publicly declared that he was going to follow in the footsteps of Lula. In the previous election where he was defeated he was sternly in favour of the Chavismo model.

The political ideology of Chavismo seems to be slowly dying, as leaders throughout the region have seen the dramatic rise of Brazil socially and economically in the last decade. From being an economic backwater known for its football, beaches and samba it has now become a world economic superpower with increasing diplomatic influence in world events. In contrast, Venezuela's economy is not growing, its oil money are being squandered to prop up small neighbouring "caudillos", it has

hyperinflation, regular blackouts, fuel shortages and the daily confiscation of private businesses. Given that Venezuela is still one of the world's largest oil producers Chavez will be able to continue on this road for some time yet, at least until next year's presidential election, but his dream of a new Bolivarian revolution now look well and truly dead.

The political ideology of Lulismo is not really in effect new in Latin America. Over the last 30 years Chile has successfully managed its economy by neither left nor right policies. The guiding principle has been prudent economic policies, an economy open to investors which respects the rule of law and most importantly the goal of creating a fairer and more just society. The key word is in effect pragmatism. This is how Lulismo can be defined as well. Lula spent his life as a leftist union leader yet when he became President he was quite happy to continue the economic policies of the previous President.

Given the economic and social development of Brazil in the past decade in contrast to the darkness currently enveloping Venezuela both, literally and metaphorically, it is clear to see why the appeal of Chavismo has run its course.

### **Latin America and Asia Trade**

Like the rest of the world during the past decade Latin America has witnessed a sharp increase in investment from China. Chinas growth needs natural resources and Latin America has them in abundance from oil to iron ore to copper. As a result China as recently been quietly purchasing stakes in large in some of the largest Latin American commodities companies.

A recent UN report on Latin America shows that Chinas investment in the region has skyrocketed in the last two years. In 2010 China invested over \$15bn in the region which was more than double for the previous two decades. Already the figure for 2011 is near \$25bn. Total trade between China and Latin America is already over \$200bn annually, which is double the amount in 2007. China has already surpassed the United States as Latin Americas largest trading partner. Besides closer economic ties China and other Asian countries are increasing diplomatic ties with new embassies been opened up all over the region. And it is not just one way investment with Latin American companies now looking towards Asia first as a location to invest. One of the region's largest banks, Sao Paulo based BTG Pactual, has recently signed investment agreements a number of Asian sovereign wealth funds and banks.

Ties between emerging markets form what economists call the "new Silk Road" -- a \$2.8-trillion version of the Asian-focused network of trade routes along which commerce prospered starting in about the second century. Stephen King, HSBC's chief economist, predicts the relationships will strengthen and lists them as a reason for his forecast that emerging markets will grow about three times faster than rich nations this year and next on average.

## Drug war in Latin America

One of the major problems facing Latin America's continued economic and political successes of the last decade is the drugs war. Ever since the 1980's Latin America has been trying to deal with a problem that has only worsened with time. For the past 30 years the response has been to wage war against the problem often with the financial and military support of the United States. However, no discernible success has been achieved other than moving the problem from country to country.

In the 1980's the most powerful drug cartels in the world were based in Medellin, Colombia and the destruction on the country throughout this time almost brought Colombia to its knees. With heavy financial and military support from the United States Colombia managed to defeat the cartels over time. However it merely moved the problem from one country to another. The war on drugs is a like a bubble, you push it down in one area and it pops up somewhere else. In the 1980's the Colombian drug cartels transported the drug directly to the United States. However, as their power and influence waned in the 1990's they began to look for partners to help them transport it. As a result many of the cartels teamed up with Mexican gangs who then took the drug on its final journey across the border.

Mexico has now become a staging post for the drug before it hits the American market. The Colombian cartels have receded in to the background as wholesalers while their Mexican drug counterparts now deliver directly over 80% of the cocaine consumed in the United States. This has caused a surge of violence in the past decade as the war on drugs has shifted from Medellin and Cali to Juarez and Tijuana. In the past four years alone it is estimated that over 40,000 people have been killed due to the drugs war. While the United States government spend a few billion every year trying to deal with the problem, the drug cartels are rumoured to earn close to \$40bn a year – and that is just the Mexican cartels.

The violence in Colombia in the 1980's and 1990's terrorised and horrified a nation as all sections of society were targeted including commercial airlines being blown to pieces by an on-board bomb which was targeting a judge. The violence in Mexico has become even more gratuitous with mass graves of decapitated victims being discovered by the road side or hanging from a bridge. Only a few weeks ago one of the drug cartels slaughtered over 50 people as they burned down a casino.

While Mexico struggles with the war on the cartels a more recent development is even more worrying. As more and more military and financial resources are used against the cartels the violence is spreading south to Guatemala, El Salvador, Honduras and Nicaragua. The rule of law and local police forces in these countries simply can't deal with this problem and it could seriously destabilize these countries and the region. Due to the increase in drug related crime which is gradually easing itself into society Honduras has recently become the most dangerous country on earth, quickly followed by her neighbours Guatemala and El Salvador.

A recent Latin American report on the war on drugs in the region by a group of experts, many of them ex-presidents, has suggested that the war is not being won and that alternative solutions to the problem must be found. These solutions involve treatment, less custodial sentences and the possibility of legalizing cocaine. While the United States and the European politicians have said this is out of the question it must be looked at. As the violence and destruction head south from Mexico through the smaller Central America countries and onwards beyond that, further south, to where

Central America meets South America on the Panama Colombian border it is hard not to see the depressing irony in the 30 year drugs war.

