



PERSPECTIVES FOR THE NEW ADMINISTRATION

A Perfect Storm  
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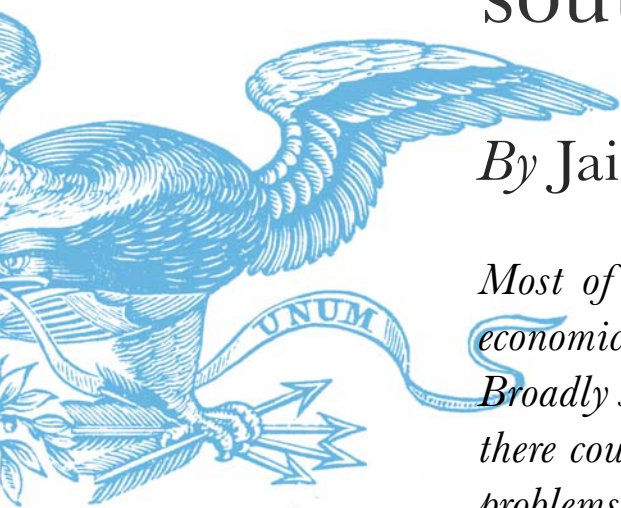
*By Jaime Daremblum*

Hudson Institute



# A Perfect Storm in Latin America: How will Obama handle economic and security challenges south of the border?

By Jaime Daremblum



*Most of Latin America has enjoyed a lengthy period of economic and political progress, which should be celebrated. Broadly speaking, the region is in relatively good shape. But there could be turbulent times ahead caused by an array of problems, including increasing drug-related violence in Mexico and Venezuelan President Hugo Chavez's alliance with Iran. While Obama will probably devote most of his foreign policy attention to the Middle East and Asia, he won't be able to ignore the many challenges in Latin America.*

Recent events suggest that Barack Obama will be facing a veritable perfect storm of challenges in Latin America. The death toll in Mexico's war on drugs is mounting. The future of Plan Colombia, which began as a U.S.-backed anti-drug initiative, is uncertain. Argentina may be on the verge of yet another economic collapse. The global financial crisis is affecting countries throughout the region. Venezuelan President Hugo Chávez is attempting to remove the constitutional limits on his power and is using his oil wealth to fund

## PERSPECTIVES FOR THE NEW ADMINISTRATION

anti-American populists. Chávez is also pursuing a strategic partnership with Iran. In Nicaragua, the ruling Sandinista party stole recent municipal elections and has been harassing the opposition. In Cuba, the island's Communist rulers are trying to preserve a creaking dictatorship and squash hopes of democratic transition.

Meanwhile, Russian and Chinese influence in Latin America is growing. Russian warships recently arrived in Venezuela for a series of military exercises. The Russian fleet included a nuclear cruiser. As the *Guardian* noted, "It was Moscow's first show of naval force in the region since the Cold War."

How will Obama respond? Unfortunately, Latin America got little airtime during the 2008 presidential campaign, so we don't know much about his plans for the region. We do know that Obama routinely criticized free trade and opposed the FTA with Colombia. We also know that he promised to increase U.S. economic aid to Latin America.

Regional officials are hoping that his anti-trade posturing was just campaign rhetoric. As for boosting development assistance, the financial crisis and a U.S. recession will probably scuttle that idea. Obama also famously pledged to meet with Chávez and Cuban President Raúl Castro "without preconditions." He has since backtracked from that promise.

Obama is taking office at a critical moment in Latin American history. After a lengthy stretch of strong GDP growth, the region must deal with the headwinds of a global financial crisis and economic downturn. The massive drop in oil prices has eroded Chávez's petro-power, at least temporarily. But Venezuela is moving to enhance its economic and security cooperation with Russia and China.

According to a recent *Moscow Times* article, "the volume of trade between Russia and Latin America has been growing at a clip of 25 percent to 30 percent annually." The Russian-Venezuelan war games highlight their burgeoning defense ties. In September, Chávez traveled to Beijing and purchased two dozen K-8 military aircraft. During the same visit, Venezuela and China agreed to expand their energy cooperation. As Agence France-Presse reported, "Caracas provides 500,000 barrels of oil per day to Beijing, a trade expected to grow to one million barrels a day by 2012."

The presidents of both Russia and China recently toured Latin America. Russian President Dmitry Medvedev met with Chávez recently in Caracas. The two leaders reached several agreements on energy, economic, and military collaboration, including a pact that will help Venezuela develop its own civilian nuclear program. Medvedev also stopped in Peru, Brazil, and Cuba. He was in Peru for the Asia-Pacific Economic Cooperation summit, as was Chinese President Hu Jintao, who

## PERSPECTIVES FOR THE NEW ADMINISTRATION

declared that “China and South America have already become extremely good friends and partners.” Hu also traveled to Cuba, where he signed economic accords, met with both Raúl and Fidel Castro, and spoke of the friendship between the Cuban and Chinese peoples. As the Associated Press noted, China is Cuba’s second largest trading partner (after Venezuela), with annual bilateral trade eclipsing \$2.6 billion, and Chinese trade with all of Latin America increased from \$10 billion in 2000 to \$103 billion in 2007.

China seems eager to expand its trade relations throughout the region. One hopes that U.S. lawmakers are paying attention. The U.S.-Colombia FTA remains stuck in Congress, as does the U.S.-Panama FTA. Their approval would send the right message to Latin American officials. Obama claims he is committed to the region. But will he endorse the Colombia and Panama deals?

Closer to home, Obama will have to coordinate anti-drug activities with Mexican authorities. The drug war in Mexico has become increasingly violent, with horrific bloodshed plaguing many Mexican border towns. As the *Washington Post* reported last week, Mexico’s drug war “has claimed more than 4,500 lives since President Felipe Calderón unleashed the army and police against the cartels and corrupt officials in early 2007.”

Despite its worsening drug problem, Mexico has experienced strong economic growth in recent years, and President Calderón has championed important reforms. The same can be said of Colombia and its president, Alvaro Uribe. But now both countries are dealing with fallout from the global financial crisis. Colombia has seen massive reductions in all types of violence under President Uribe, yet it is still plagued by drug trafficking. Obama will have to work with Bogotá to determine the future of Plan Colombia, a U.S.-funded military aid program that began under President Clinton as an anti-drug initiative and now includes anti-terrorism assistance.

Thanks to their recent economic reforms, most Latin American countries are in a relatively good position to address the financial turmoil. But one country that may be on the brink of an economic disaster is Argentina, whose last meltdown occurred in 2001. The Argentine government made way too many spending commitments when commodity prices were sky-high; now that they have fallen dramatically, Buenos Aires is in a fiscal crunch. As the *Economist* reports, Argentina “must repay \$23 billion of expiring bonds over the next two years that it cannot roll over because investors fear Argentina may be heading for another debt default and are demanding a prohibitive interest rate.”

If all that were not enough, Obama must also contend with the erosion of democracy in Nicaragua and Iran’s creeping influence in Venezuela. Chávez has embraced Iran as a strategic partner, and there is evidence that Hezbollah, the

## PERSPECTIVES FOR THE NEW ADMINISTRATION

Iranian-backed terrorist group, may be reaping the benefits. The U.S. Treasury Department has accused the Venezuelan government of “employing and providing safe harbor to Hezbollah facilitators and fundraisers.” The *Los Angeles Times* has reported that Western anti-terrorism officials fear Hezbollah is now “using Venezuela as a base for operations.” Last month, a Venezuelan state-run media outlet said that Tehran and Caracas are launching a new program at Venezuela’s Bolivarian University that will educate students in “21st-century socialism,” as Chávez calls his brand of politics.

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