Dismal days

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All eyes have been on Iraq, but this suspension of interest in Latin America by many, particularly the United States government, has not altered the fact that the region is struggling with its own war in which drugs may not be weapons, but certainly continue to be the means, of mass destruction. Over the past 30 years the demand for cocaine has had its toll in the Andean countries, bringing in its wake a degree of corruption which has ruined many regional institutions, financed guerrillas and, because of coca planting, has ruined large tracts of land. The drug profits seep into and distort regional economies despite increasingly tough money laundering controls in regional banking centres such as Panama where opening accounts is particularly challenging and time-consuming. "Plan Colombia", the United States-inspired crackdown in Colombia, has meant that although the country's coca crop (the source of three quarters of the world's cocaine) has been reduced, cocaine production has moved to other nearby countries. Peru (once the main source of the world's coca crop until the middle of the 1990s) is now increasing its coca cultivation, encouraged also by an increase in the price of cocaine. Increasing amounts of Peruvian semi-processed cocaine-base are being smuggled through Bolivia into Brazil and then on to Europe. Drug gangs have become a problem, particularly in Rio de Janeiro. A similar clampdown in Mexico means that more drugs are now getting into the United States via Caribbean islands, which was the case back in the 1980s. This fluid trade follows the line of least resistance and the social instability which it produces has added to the dismal economic problems in many of the region's countries.

Just as the mobility of the drug industry has frustrated efforts to significantly reduce it, so the volatility of Latin American economies is making some of them almost impossible to manage. Argentina and Venezuela aside, Uruguay is probably going to experience its fifth year of recession. Even one of the region's two big investment-grade economies, Mexico, has faltered of late. Tensions are increasing as the country's mid-term elections draw closer (July) and the thorny question of whether or not two members of congress should be stripped of their congressional immunity to face criminal charges has to be addressed. Both are members of the biggest party in congress, the Partido Revolucionario Institucional, which has countered with the threat to push for the appointment of a special commission to investigate the financing of President Fox's campaign in 2000. Meanwhile, in Chile, the region's other investment-grade economy, President Ricardo Lagos has his own problems. Mr Lagos's centre-left coalition has been in power for the last 13 years and despite a cabinet reshuffle at the end of February, there is a feeling that new blood is needed. He is in the middle of his six-year term and although he has scored successes with an unemployment insurance scheme and free-trade agreements with the United States and the European Union, the economy, which has always been considered dull but sound, has come under strain. Two prominent political corruption scandals (something which Chile has not usually been associated with) have not helped. Already the president of the central bank has resigned after his secretary was found to have leaked, for gain, market-sensitive information to business interests. The current global economic woes have worked against Chile's dependency on commodity exports, particularly copper. Chile is likely to raise interest rates soon, in line with a policy which seems to be the only consistent one throughout the region (Mexico and Brazil having already done so).

Venezuela, on the other hand, is not so focused on raising interest rates as it is on paying interest due on its external debt of USD22.4bn of which USD5bn is payable this year. The country is about to become the third Latin American country this year to restructure its external debt. In March, President Hugo Chávez said that Venezuela was unable to meet its debt payments because of the damaging effects of the opposition-led strike at Petróleos de Venezuela, the state oil company. The only reason that the central bank's international reserves have remained steady (just above USD12bn) is because foreign currency trading had been suspended since the beginning of the year; those dollar sales which the government has recently allowed have been infinitesimal. A pending ruling by the Venezuelan Supreme Court, however, could require the government to remove the ban on all foreign currency trading, which many fear could lead down a slippery slope to debt default. In its own version of offshore financial shuffling, more commonly involving businessmen, lawyers and accountants, the central bank has transferred some international reserves to the Bank for International Settlements in Basle where the funds are protected from seizure in cases of foreign debt default. The Venezuelan government's eyes have also been on Iraq, anxiously watching events and hoping for higher crude oil prices to boost Venezuela's much-needed export revenues. But with the main military campaign over, the reopening of Iraq's huge reserves points to lower, and not higher, oil prices. The pain continues.

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