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Canada's Spotlight on the Americas

Canadian Foundation for the Americas | Fondation canadienne pour les Amériques | Fundación Canadiense para las Américas

www.focal.ca

November 2008, Volume 7, Issue 8 ISSN 1703-7964

Brazil's banks merge to compete internationally

Brazil's second and third largest banks, Itau and Unibanco, announced their plans to merge on November 3.

The merger will give the new bank, Itau Unibanco Holding, "the necessary flexibility to increase Brazil's presence in the international arena," according to a joint press release by Itau and Unibanco.

Unibanco's chief executive Pedro Moreira Salles will become Board Chair and Itau's Roberto Egydio Setubal will be the chief executive of the new bank.

The merged bank will have combined assets of 575.1 billion reais or US\$ 265 billion. Services include credit card and insurance.

The consolidation announcement has resulted in an increase in both of the bank's shares, after sharp drops in their values.

Are Trends in Money Transfers to Latin America Shifting Downward?

Manuel Orozco

The financial crisis in the United States has raised speculation and concern about the possibility of a decline in remittances to Latin America and the Caribbean and its impact on the region's economies, particularly among the more remittance-dependent countries. Such speculation has largely been associated to the decline of remittance flows to Mexico, thus raising questions about the future of these flows on an international scale. However, these speculations may obscure a rather complex reality exclusive to Mexico's history as well as to basic dynamics of migration and remitting.

First, the decline so far has affected Mexico. In August, remittance flows fell by 12 per cent in relationship to the previous year, reflecting a drop of nearly 500,000 person-to-person transfers (Table 4). Under these circumstances, it is important to ponder why only Mexico is being affected and not the rest, particularly since Central American migrant remitters share very similar traits to Mexican migrant remitters (occupation, years in the US, age, amounts remitted).

Second, expectations of a decline need a reassessment against migration and remittance cycles and trends. In either case, it is important to explore what the future entails in terms of remittance flows by understanding the dynamics and expectations of migration, remittances and market intermediation. With that in mind, this article considers some issues that when combined, may explain the Mexican decline and inquire whether remittances to Latin America may follow the Mexican pattern.

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Archibald Ritter proposes a three phase plan for US re-engagement with Cuba.

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Peter McKenna raises the prospect that an Obama presidency could overshadow Canada in the region.

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Will Mexico's fight against the drug trade push it into becoming a failed state? asks Nathalie Gravel.

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Two hurricanes and a global financial crisis adds debt, strain to Cuba's economy, says Pavel Vidal.

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Note from the Editor — US Needs Change Beyond Elections

Tomorrow, everyone in the world will be able to breathe a sigh of relief or of disgust, depending on one's political persuasion, hopes and aspirations, over the US elections.

Indeed the balloon of expectations has grown nearly as large as the financial bubble that has so recently popped to such devastating effect, so that it is hard to think of November 5 being anything other than anti-climactic and a little scary. What if the new president turns to his advisors and says, "Now what do we do?" as did Robert Redford in *The Candidate*.

Unlikely as that is, the hemisphere's future is bound to what the new president decides to do. The unlikely election of Republican Party presidential candidate John McCain would signal a continuation of President Bush's policies with some variations. The election of Democratic candidate Barack Obama coupled with his party winning both chambers in the US Congress, should mean an opportunity for substantial policy change, both domestically and internationally. I say should because whoever wins the White House will be faced by considerable restraints, thanks in large part to the global financial crisis and the quagmire of the expansive War on Terror, particularly in Iraq and Afghanistan.

In a world of instant gratification and snap answers, resolving these issues will be no easy task, even with a near-monopoly over the levers of power in the United States. While Obama has often spoken about how his country needs change, few have spoken about how power can change one's perspective and willingness to fulfill promises from the campaign trail that bear a high political price domestically and internationally.

Will the people of the United States be able to combine patience with renewed civic involvement to trans-

form the country? How will that change affect US international involvement? Will the people of the Americas and elsewhere in the world be able to afford to wait for this transformation? Where will Canada stand?

There is little doubt that fostering more cooperation within the hemisphere is a critical way to buttress the region from the widening ripples of the financial crisis. Remittances from the United States to Mexico are falling, writes Manuel Orozco of the Inter-American Dialogue. He asks whether Central American remitters are likely to follow suit as the US economy bears the brunt of a recession with job losses and falling demand for raw materials, production and consumption.

While remittances from the US are restricted due to the embargo, the Cuban economy is also under the strain of higher fuel prices and slowing growth combined with a growing debt. This strain is going to expose the structural weaknesses of the Cuban economy and it underlines the need for substantial economic reform, according to Pavel Vadel, a researcher at the University of Havana.

Arch Ritter sees the Obama administration as a historic opportunity to re-engage with Cuba. He suggests a three-phase plan for how that might happen. Ending the stand-off, which has reached ineffective lows during the Bush presidency, and direct engagement is the surest way to create the conditions for change and a move toward a mixed economy. Re-engagement with Cuba also will reap benefits for US relations throughout Latin America.

In his contribution, Peter McKenna said that a re-engaged US in the region risks overshadowing all of the advances Canada has made in the region since it joined the Organization of American States in 1990. Only by being pro-active can Canada have a chance to get its voice heard over that of the promised special representative for Obama to the region.

While Canadians voted in their federal election for the *status quo*, re-electing the same minority government, it seems that in the United States, staying put is no longer acceptable; arguably, it is untenable. The new US president will arrive at the best of times, which is the worst of times, and hopefully the change wrought will be one built on cooperation, multilateralism and mutual respect in the hemisphere. 🌐

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Remittances *(continued from page 1)*

What may explain the Mexican decline?

Some issues identified through this research looking at household surveys, company data and macro-economic data, point to actual factors.

Factual considerations: a) Increased Hispanic unemployment from 5.4 to eight per cent has amounted to 125,000 Mexican migrants losing their jobs between January 2007 and August 2008; b) 18 per cent of migrants claim to be earning less than the year before. Some money transfer companies claim that the principal amount sent to Mexico (not the number of transfers) has declined by \$20 (that is approximately a seven per cent drop); c) Cash savings among migrants have dropped between 2007 and 2008 from \$3,500 to \$2,500. Mexicans have had the largest drop; and d) In 2007, 500,000 Mexicans were deported, 150,000 of which were apprehended while in the US as part of immigration raids (the rest were deported while attempting to cross the border).

There are statistical considerations missed in these discussions and analyses.

Mexican migrants' 'bankarization' rates have increased from 30 per cent in 2003 to 58 per cent in 2008. In turn, the number of Mexicans using alternative transfer methods such as the internet or send-

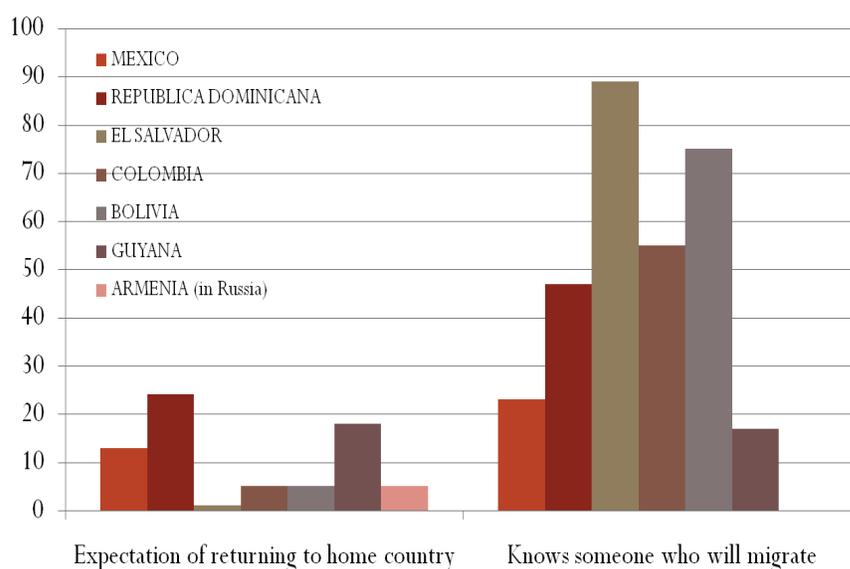
ing debit cards to their relatives has increased by between two and five per cent in 2008 (two per cent of six million Mexican remitters amounts to 120,000 people).

Moreover, with two exceptions, most money transfer companies have not experienced declines in volumes or numbers of transfers. This research showed that those with banking access are more likely to use account-to-account transfers

rather than cash-to-cash, which are not recorded properly by the Central Bank of Mexico.

The statistical figures by the Central Bank of Mexico only begin to reflect actual flows after 2004, therefore it is inappropriate to rely on the statistical reports without a baseline index that shows the real growth of remittances to Mexico or any country. Growth ratios above 15 per cent should be considered as

Figure 1: Prospects for migrant return or emigration (%)



Sources: World Bank, Central Banks.

Table 1: Remittances to Latin America and the Caribbean

	Latin America (US\$) Sources: World Bank, Central Banks.	Growth (%)	9 countries* (US\$ million)	9 countries share of remittances to all Latin America (%)	Growth for 9 countries (%)
2000	19,987,000,000.		15002	71	15
2001	24,229,000,000.	21	18430	76	23
2002	27,918,000,000.	15	21346	67	16
2003	35,218,720,000.	26	27071	71	27
2004	41,522,140,000.	18	32466	72	20
2005	48,322,660,000.	16	38585	73	19
2006	56,860,490,000.	18	45208	73	17
2007	61,000,000,000.	7	47764	73	06
2008			55297		15

* The nine countries are Mexico, El Salvador, Guatemala, Honduras, Nicaragua, Colombia, Ecuador, Jamaica, Dominican Republic.

suspect. Thus, there is not one single factor, but a combination of trends that explains the decline of flows to Mexico.

Generalizing the Mexican experience may not be a useful approach. However, some trends may show that the future growth of transfers may be less than 12 per cent a year but greater than five per cent.

First, central bank and World Bank figures do not show that remittances to the region will experience a decline. Using growth for 2008 for the first two quarters as a proxy to project the remaining two quarters, expected growth in 2008 is over 10 per cent (Table 1).

Second, household survey data collected for this study shows that the per cent of people intending to migrate from Latin America and the Caribbean is far larger than the per cent of migrants intending to return (this is an average net difference of eight per cent), mostly indicating that the lack of jobs in their home country is the reason to migrate (see Figure 1 and Table 2).

Third, there is a slowdown of migration to the US, which may be explained by a combination of factors, including the following: anti-immigrant sentiment, high deportation rates, Gross Domestic Product (GDP) growth in Latin America,

and opportunities to migrate elsewhere (Europe, Japan and within Latin America). As well, there is the multiplying effect of migration (usually of a 12-year range), initiated by the US immigration reform that ended a major legalization period of nearly three million migrants between 1987 and 1992 and ended in or around 2004.

Fourth, the increasing cost of living in Latin America and the Caribbean and US dollar decline have made the purchasing power of remittances weaker, thus prompting immigrants to remit as much as or the same as they were remitting in 2007, but not less. The average amounts sent have not changed so far.

Thus, the economics of the US financial crisis are yet to affect remittances flows in 2008. However, the continued increase of Hispanic unemployment (above nine per cent after 2008) and further drop in wages may result in a severe decline in 2009 (migrants working in construction, who represent 20 per cent of all occupations, lost earnings by 50 per cent, from \$18 per hour to \$9 per hour). Currently, economic indicators fare better than the recession in 2001-2002.

All these trends however reflect a silver lining: with increasing liquidity problems among some Latin American and Caribbean banks, and increasing stock of savings among remittance recipients, accelerating banking access to these families will prove to be a major strategy to mitigate the risk of a major liquidity crisis in the region (Table 3). 

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Table 2: Expected remittance trends for the next five years

Forecasting flows ---	Scenarios		
	9%	5%	2%
Percent migrants saying they will return	13%	15%	20%
Expected number to migrate	4%	10%	18%
Net migration	3%	7.00%	12.60%

Source: Data collected by the author through household surveys, 2008. Three possible scenarios for remittance flows were identified reflecting low, medium and high patterns.

Table 3: Financial access in Central America and the Dominican Republic

	Dominican Republic	Guatemala	Honduras	Nicaragua
People who save (%)	49	18	44	34
People with bank accounts	45	30	40	24
People who save at banks	27	8	16	26
Average amount saved (US\$)	1440	1460	1661	1200
People with credit cards (%)	12		24	8

Source: Data collected by the author through household surveys, 2008.

Table 4: Growth of remittances and Hispanic Unemployment in the US (%)

	2006				2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mexico	29.1	21.4	12.9	7.7	3.0	-1.2	2.6	-0.4	-3.4	-1.1	
El Salvador	24.6	16.4	12.1	9.2	7.9	7.1	8.0	3.1	6.1	7.1	2.7
Guatemala	20.2	21.2	27.4	14.4	11.9	13.3	17.3	14.7	9.8	7.8	6.0
Honduras	39.4	42.7	27.6	21.6	11.7	8.7	12.1	7.3	9.9	12.0	4.5
Nicaragua	13.0	13.2	18.7	8.7	-4.9	7.7	6.4	14.8	22.8	13.5	
Colombia	17.1	26.8	14.2	12.3	11.0	-2.0	23.2	29.1	20.1	19.2	
Ecuador	9.4	17.2	23.3	26.8	3.5	8.5	6.9	3.0	12.3	-7.8	
Jamaica	3.6	7.6	7.4	9.9	7.8	10.0	11.8	13.9	11.8	11.0	
Dominican Republic	10.6	18.6	17.6	5.6	17.2	10.7	7.2	8.8	7.9	5.3	
Hisp. Unempl.	5.56	5.23	5.3	4.86	5.36	5.66	5.7	5.86	6.46	7.16	8.2

Source: Data was collected from the central banks of each country, 2008.

Obama, Cuba, and Latin America: Renewal and Reconciliation?

Archibald R.M. Ritter

The deterioration of United States relations with Latin America since 2000 has been momentous.

The Bush era has been characterized by serious mismanagement of policy toward the region. Moreover, Venezuelan President Hugo Chávez has succeeded in constructing an anti-US alignment which includes Bolivia, Cuba, Ecuador, Nicaragua, and perhaps Paraguay. Chavez has hurled insults at Bush and literally demonized him in the UN General Assembly. On September 9, he fabricated a confrontation and expelled US Ambassador Patrick Duddy. Will a Barack Obama Administration be able to turn this situation around and establish normal and friendly relations with the region?

An Obama presidency will have an unprecedented opportunity to improve the US' relationship with Latin America and the Caribbean. Obama is a powerful symbol of the authenticity and vitality of democracy in the United States. His candidacy and likely election signify the beginning of a new era in which the baggage of past segregation and discrimination are set aside. This is a powerful message in the region and the world that demonstrates the "American Dream" lives. Obama's election will be of particular interest to those countries where there are large Afro-Latino populations such as Brazil, Cuba, the Dominican Republic, Peru and Venezuela as well as the Afro-Caribbean countries.

On the other hand, a McCain

electoral victory—now improbable—would most likely lead to further deterioration in the US-Latin relationship.

The most eloquent and persuasive means of changing the reputation of the US in Latin America, indeed in much of the world, would be a policy of reconciliation toward Cuba. The US approach has been dysfunctional for 50 years. It has permitted Fidel Castro to portray himself as the nationalist champion defending Cuban sovereignty against the US. It has also provided a pretext for denying basic human rights to Cuban citizens and maintaining the Communist Party monopoly on power.

Undoubtedly an Obama Administration will be preoccupied with the economic crisis that likely will continue after the inauguration as well as with other issues. Relative to these, Cuba may seem of secondary significance. However, in view of the broader importance for its relations with Latin America and the world, it will be worth while for an Obama Administration to focus on US-Cuban relations. Moreover, Obama's freedom of action regarding Cuba will improve after the elections. If the Democrats win large majorities in the House and the Senate, Obama could ignore the hard-line Cuban-American lobbies and legislators. The Cuban-American community also has become more moderate vis-à-vis Castro's Cuba.

How might a new Obama Administration proceed regarding Cuba?

One approach would be to "cut

the Gordian knot" and normalize relations unilaterally and immediately. This has been rejected by Obama who stated that full normalization and an end to the embargo would come only with "meaningful democratic change" in Cuba. On the other hand, a "tit-for-tat" approach requiring major reciprocal Cuban action for US policy initiatives would likely fail as Cuba under Raul Castro is unlikely to move toward political liberalization any time soon.

Perhaps an intermediate step-by-step approach in which the US takes major initiatives unilaterally and then awaits changes on the Cuban side is a preferable option.

One possible intermediate approach might include the following:

Phase 1:

- A re-statement that the ultimate objective of US policy, such as that of most countries in the western world regarding Cuba, is the establishment of a pluralistic democratic political system and full respect for basic human rights;
- Re-assurance that the US has no territorial aspirations regarding Cuba, a claim often made by Fidel Castro in the past;
- Freedom for Cuban-Americans to travel and to make remittance payments to their families in Cuba, already proposed by Obama and welcomed in Miami;
- Renewed dialogue between governments on issues such as migration and drugs;
- Removal of Cuba from the list of

terrorist countries;

- Closing the Guantánamo prison (existing Obama policy);
- Closing the ineffective “Commission for a Free Cuba” and dropping the Helms-Burton Act.

Phase 2:

- Extension for all Americans of freedom to travel and send remittances to Cuba;
- Support for Cuban membership in the IMF, World Bank, Inter-American Bank, and OAS, should Cuba wish to join;
- Full diplomatic relations and cancellation of the embargo.

Phase 3:

- Withdrawal from Guantánamo, perhaps with creative provisions regarding future access and opening to a free trade zone arrangement. Guantánamo produces no economic or strategic benefit for the US but could be a valuable new city, transport hub and “growth pole” for Cuba with possible benefits for the US as well.
- Agreement to deal with US compensation claims versus Cuba and

Cuban claims versus the US in a creative and conciliatory manner.

Following Phase 1, Cuba would be expected to release all political prisoners, provide Cuban citizens with freedom to travel outside the country and drop the venomous invective used in dealing with the US. After Phase 2, Cuba would grant US enterprises the same rights as those from other countries to trade and invest. In Phase 3, Cuba would be expected to move toward pluralistic democracy, implement freedom of expression and of assembly and collaborate constructively on Guantánamo and the compensation issues. Cuba's economic organization would not enter the picture. An authentically democratic Cuba would find its own way pragmatically toward a mixed economy.

Would Cuba participate constructively in a pro-active and generous reconciliation process initiated by the United States? This is hard to answer. A key Communist Party ideologist, Armando Hart, 78, has stated that with Obama's election “a new stage will begin in the ideological combat between the Cu-

ban Revolution and imperialism.” If a hard-line view were to prevail in Cuba, a reconciliation process might stop after Phase 1. However, a new generation of leaders is likely to be more pragmatic and less burdened by the past. There are major advantages for Cuba in responding pragmatically in a process such as the above, namely a huge infusion of tourist revenues, new trade possibilities, the return of Guantánamo, and new technologies. Technology is especially important for petroleum extraction with an estimated 20 billion barrel deep-water deposit in the North Cuban Basin.

If Obama, with traditional American magnanimity, is able to restructure the relationship with Cuba and encourage its return to genuine democracy, the dead weight that damages US relations with the Latin America and the world will be released. 🌐

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Colombian Colonels Sacked for Alleged Murders of Civilians

Three colonels were among the 27 Colombian military personnel fired October 29 under suspicion of murdering civilians. The murder victims were impoverished young men from Bogotá. Seeking the high body counts that would gain them promotions, the military staff lured youths from poor areas with promises of employment. The military falsely represented these murdered civilians as casualties in the government's war on guerilla groups. The bodies of 11 young men from Bogotá were found hundreds of miles north in the militarized province of Norte de Santander. The killing of civilians by state forces to inflate casualty statistics is not an isolated occurrence. The ongoing investigation into hundreds of similar crimes will have serious implications for the army and the government of President Alvaro Uribe. Since American aid money is used to support the military's battle against insurgent groups, the US government will also face scrutiny for supporting a military guilty of human rights violations. The Colombian government is trying to reduce the incentive for such murders by making the capture rather than killing of guerilla soldiers the pathway to advancement. However, the change in policy comes too late to bridge the breach of trust between the military and the civilian population it is meant to protect.

Will Canada and Barack Obama Collide in the Americas?

Peter McKenna

Sixty years ago, the countries of Latin America and the Caribbean barely registered on the political radar screen in Canada.

The only reason that Canadian prime ministers would ever deign to visit the Americas would be to escape a cold and miserable Ottawa winter.

Rights-abusing military regimes, stagnating and closed economies, and abject poverty and crushing indebtedness confined this region to the margins of Canadian foreign policy. For the most part, Canadian foreign service officers dreaded being assigned to an inter-American desk or bureau position and studiously avoided diplomatic postings to Latin America.

Simply put, the region just had too many things going against it to interest any right thinking Canadian government. While former prime minister Pierre Trudeau singled out the region as part of his 1970 foreign policy review document, and Brian Mulroney opted to join the Organization of American States (OAS) in 1990, officialdom in Ottawa has long kept a respectful distance from the so-called US “backyard”.

But the Stephen Harper government has recently pledged to “rediscover” the Americas as a core plank in this country’s external relations.

As Prime Minister Harper stated during his July 2007 visit to Chile: “Canada’s New Government has made clear that re-engagement in

its hemisphere is a critical international priority for our country.”

“Canada is committed to playing a bigger role in the Americas and to doing so for the long term,” he added.

To be taken seriously, and to be in a position to punch above our weight, Harper knows that we have to be active on a host of hemispheric issues, including the wide-ranging energy file. But his government also realizes that Canada needs to continue its critical focus on democratic development, human rights, hemispheric security and institutional reform of the OAS.

Our enhanced involvement in hemispheric affairs, however, bumps up against the fact that Democratic president-elect, Barack Obama, has also pledged to refocus US attention on the Americas.

Several months ago, then-Senator Obama took President George W. Bush to task by saying that his policy in the Americas “has been negligent toward our friends, ineffective with our adversaries, disinterested in the challenges that matter in peoples’ lives, and incapable of advancing our interests in the region.” He went on to say pointedly: “So my policy towards the Americas will be guided by the simple principle that what’s good for the people of the Americas is good for the United States.”

One would have to go back to the days of President Franklin Roosevelt’s “Good Neighbor” policy

to discern similar US sentiments about the region.

With this in mind, and to put some distance between himself and the Bush White House, Obama set out to change the tenor and direction of US policy toward Latin America and the Caribbean—as outlined in his purposeful document, *Renewing US Leadership in the Americas*. As it states in its opening paragraphs: “Obama will pursue a program of aggressive, principled and sustained diplomacy in the Americas with a focus on advancing freedom as Franklin Roosevelt described it: political freedom, freedom from want and freedom from fear.”

To begin with, he has called for the establishment of a special envoy for the Americas, who would bring high-level attention to hemispheric issues and have the ear of the US president.

Secondly, Obama wants to increase the diplomatic presence of the US in the region (even utilizing the Peace Corps) and employ Hispanic Americans as ambassadors for “public diplomacy” purposes. Lastly, he has proposed holding an annual summit with leaders from all the countries of the Americas—rather than the Summit of the Americas process every three or four years.

Obama, to his credit, has also talked about reshaping a failed US policy towards Cuba—with even the prospect of direct negotiations between the two countries.

Clearly, Obama's promise to reinvigorate his country's presence in the Americas (along with his earlier pledge to re-negotiate the NAFTA pact) could be problematic for Canada and its key interests in the region.

Firstly, the Harper government's own initiative in the Americas could be easily overshadowed or sidelined by Obama's proposed US re-engagement. Indeed, the heft of our hemispheric voice, such as it is, may be diminished considerably by an Obama administration's "Good Neighbor" policy toward the region.

Secondly, and as global trade talks run aground, Canada may find itself in greater competition with the US to negotiate bilateral trade deals with other Latin American countries. In other words, a more positively viewed United States under Obama takes away certain advantages from a Canada that is no longer in a position to play the "ugly American" card.

On the diplomatic front, Canada will need to be careful of not getting drawn into any US-sponsored shouting wars (let alone shooting wars) with countries like Venezuela, Cuba, Nicaragua or Bolivia. Canada will also have to be extremely nimble about not being perceived as carrying messages to the region for Washington or acting as a stalking horse for an Obama White House.

We certainly don't want to find ourselves in the unenviable position of having to choose sides between the Latinos or the "gringos." To be sure, our credibility and reputation could be tarnished if we cannot be trusted or we are no longer regarded as a valuable partner by either

Canada's present coolness towards Cuba, in contrast to a more positive Obama strategy, could have wider, and mostly negative, implications for our broader Latin American policy thrust.

Clearly, the Harper government needs to be mindful of what a revitalized US policy toward the hemisphere would mean for Canadian political, economic and security interests. Stated differently, we cannot afford to simply utter platitudes about the Americas or to sit back and watch as a re-engaged Obama White House starts to cut into our heretofore comparative advantages in the region.

For if Canadian officials are not proactive in the region or allow ourselves to be squeezed out by Obama's proposed Americas initiative,

Ottawa will find itself having to fight much harder to have its influence felt, its voice heard, and its issues from being pushed off the hemispheric table. 🌐

We cannot afford to simply utter platitudes about the Americas or to sit back and watch as a re-engaged Obama White House starts to cut into our comparative advantages in the region.

Washington or other countries in the Americas.

The last thing that Canada needs is to be seen as the unappealing "ham-in-the-sandwich" by siding with the Latin Americans on some issues and a re-engaged United States on others. It is a decidedly no-win situation for us.

In terms of Cuba, not only could Canadian commercial interests be in jeopardy—especially if Obama presses hard to lift the US trade embargo—but it could also seriously weaken our ability to shape internal reforms on the island. Moreover, there is a very real possibility that

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Mexique: le nerf de la guerre anti-narcotique

Nathalie Gravel

La stratégie de confrontation directe qu'a choisie le président mexicain Felipe Calderón pour affronter les narcotrafiquants est à l'origine d'un débat à savoir si l'usage de la violence et des forces militaires est la meilleure voie ou si le dialogue et la non-violence ne seraient pas plus efficaces.

Il est vrai que les pertes de vie et l'insécurité croissante, semblant découler du choix de la stratégie violente, affectent directement les citoyens mexicains depuis presque deux ans. En fait, la pression qu'exerce le gouvernement sur les cartels de la drogue est à l'origine de luttes intestines. Les victimes proviennent généralement de ces gangs criminels organisés, succombant aux cartels les plus forts; parmi ces derniers, on retrouve *Los Zetas* et *La Familia*. À la fin septembre, ce dernier cartel faisait trembler le Mexique avec une exécution de 24 personnes appartenant à un cartel concurrent. Les habitants des villages avoisinant la scène du crime dans l'État du Guerrero ont commenté l'état d'insécurité dans lequel ils avaient été plongés, refusant d'envoyer leurs enfants à l'école pendant deux jours.

À partir du mois de mai 2008, ces mêmes groupes avaient commencé à terroriser les autorités nationales : le 28 mai, sept agents de la police fédérale judiciaire mexicaine furent

victimes de grenades lancées par des narcotrafiquants qui venaient d'assassiner deux personnes à Culiacán, capitale de l'État de Sinaloa dans le nord du Mexique. La semaine précédant cet événement, le président avait envoyé l'armée dans ce même État; les soldats ont été mobilisés à

Pour la première fois, des actions de déstabilisation de l'État mexicain de la part des cartels ciblaient des civils.

nouveau après cette attaque sanglante. En tout, ce sont plus de dix milles troupes qui sont mobilisées au nord du pays dans la lutte anti-drogue, dont plus de deux milles dans l'État de Chihuahua (idem). Ces deux États, Sinaloa et Chihuahua, font partie du territoire du cartel de Sinaloa (comptant aussi les États de Sonora, Durango, Jalisco et Nayarit), aussi appelé « los Zetas ».

À la suite d'arrestations qui envoyèrent derrière les barreaux certains des dirigeants de ce cartel, une liste de 22 personnes à abattre a été déposée dans un cimetière de Sinaloa, visant surtout des fonctionnaires municipaux. Depuis, sept de ces

22 personnes ont été assassinées – en commençant par le juge en chef de la section narcotique du Mexique, Edgar Millán Gómez le 8 mai dernier – trois ont été blessées, 12 ont résigné et seulement un policier demeure en poste. Trois chefs policiers mexicains ont demandé asile aux États-Unis. Parmi ceux qui ont démissionné se trouve le chef de la police municipale de Ciudad Juárez. À chaque jour, des menaces sur les ondes radios des policiers se font entendre, surtout sur les territoires qui n'ont pas voulu céder au contrôle narco, et même des annonces de recrutement à même le corps policier, comble d'ironie.

Mais, qu'en est-il de la sécurité régionale ? L'ex-ministre des affaires étrangères canadien, Maxime Bernier, affirmait le 24 mai dernier que les cartels de la drogue représentent une menace pour la sécurité du Mexique et de la région. Le Canada, secondant les États-Unis, fait partie des alliés du président Calderón dans cette lutte contre le narco.

La guerre menée contre le narco de la part de l'État conservateur mexicain est largement conditionnée par les États-Unis dans le cadre de l'Initiative Mérida (signée en mars 2008). En retour des efforts de cette lutte, les États-Unis s'engagent à remettre une somme de 1,4 milliard de dollars sur trois ans au Mexique

(et à l'Amérique centrale), le but poursuivi étant d'assurer la sécurité dans la région. Or, l'ampleur des dégâts découlant de cette lutte est en passe de transformer l'Initiative Mérida en un second *Plan Colombia* alors que le Mexique est à risque de tomber sous la catégorie de nouvel état « voyou ».

L'explosion de grenades le jour de la fête de l'indépendance à Morelia, Michoacán, le 15 septembre dernier, attribuable à la bande *La Familia*, vint renforcer la possibilité d'un tel glissement. Sept morts et 101 blessés en résultèrent. Pour la première fois, des actions de déstabilisation de l'État mexicain de la part des cartels ciblaient des civils.

Les efforts du président Calderón de « purger » la police de ses éléments corrompus afin de mieux lutter contre les narcotrafiquants sont nobles en soi. En fait, ce qui est plus difficile à comprendre est le temps que les dirigeants successifs de ce pays ont mis à se rendre compte de l'importance de la tâche et à passer à l'action. Il est faux d'associer directement le nombre élevé de victimes aux actions récentes de contrôle du gouvernement; en fait, elles sont plutôt le résultat d'un laisser-aller et de la faiblesse de l'État qui se sont installés sur des décen-

nies. La faiblesse de l'État mexicain a laissé la mafia prendre de l'ampleur sur le territoire et dans son administration, sa nature étant celle d'un para-pouvoir qui cherche à combler les vides de gouvernementabilité, devenant souvent une solution à la réponse des besoins des citoyens, en remplacement de l'État.

Obtenir l'allégeance des autorités, faire régner l'ordre et la loi et défendre ses frontières sont toutes des actions primordiales à la constitution d'un État fort. Les avantages d'une sécurité régionale accrue sont nombreux et, après les États-Unis, le Canada est fortement concerné. Comment l'État canadien peut-il participer de la pacification et de la revitalisation de l'État mexicain? Il appert qu'il faille remonter aux sources du problème, c'est-à-dire à l'existence d'incitatifs économiques dans la population mexicaine en faveur du trafic de la drogue. Un seul coup d'œil aux faibles salaires des policiers mexicains (environ 8400 \$US par année) en dit long; ces faibles revenus constituent une justification pour chercher des sources de revenus complémentaires. D'autre part, les flots de migrants illégaux sont un symptôme criant de sous-emploi et des conditions précaires d'existence d'une grande partie des

travailleurs. L'aide internationale devrait viser le développement de politiques favorisant la création d'emplois, l'appui aux projets productifs en milieux ruraux et une meilleure gestion des dépenses publiques (incluant des taux de taxation selon les revenus à l'image de ceux existant au Canada) afin de lutter contre la pauvreté. Un meilleur contrôle du trafic illégal d'armes à feu en provenance des États-Unis est aussi essentiel, l'entrée d'armes de gros calibre renforçant continuellement l'avantage des gangs criminels sur les autorités. L'assainissement de la gestion des dépenses publiques, et surtout le développement d'autres sources de revenus pour l'État (en plus de la pétrolière nationale PEMEX), est la clé qui permettra de valoriser le travail des policiers, de leur verser un meilleur salaire, mieux les protéger ainsi que leurs familles et enrayer la corruption à l'intérieur du corps policier. 🌐

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Mexican Congress Approves Foreign investment in PEMEX

Mexico's nationalized energy industry has responded to decreasing national production and international economic downturn by relaxing regulations in hopes of attracting international prospectors and investors. Left-wing politicians prevented the complete privatization of Petroleos Mexicanos (PEMEX).

With a 10 per cent decrease in oil production this year, the majority of Mexico's legislators were in favour of attempts to revive their flagging oil industry. The new terms attempt to attract international firms capable of exploring for oil. While the technological investment of foreign firms is required by Mexico, this investment may not be forthcoming unless companies are guaranteed to profit from any reserves discovered in Mexican territory. While rising oil prices have compensated somewhat for the drop in production, the health of Mexico's export sector depends on finding new sources of oil.

Mexico: the core of the war against drugs

Nathalie Gravel

The direct confrontational strategy chosen by Mexican President Felipe Calderón to tackle drug traffickers has generated debate about whether the use of violence and military force is the best option or if dialogue and non-violence would be more effective.

It is true that the loss of lives and increasing insecurity seem to be the result of this violent strategy, underway for nearly two years, which is affecting Mexicans directly. In fact, the government's pressure on the drug cartels is the root of interne-cine wars. The victims come mainly from these organized gangs, particularly from the strongest cartels among which we find Los Zetas and La Familia. At the end of September, La Familia rocked the country with the execution of 24 people from a rival cartel. Townspeople living near the crime scene in the state of Guerrero talked about being thrown into a state of fear and refused to send their children to school for two days.

Since May 2008, these same cartels have been terrorizing national authorities. On May 28, seven Mexican federal judiciary police officers were victims of a grenade attack by drug traffickers who had just killed two people at Culiacán, the capital of the state of Sinaloa in northern Mexico. The week prior to this event, the President had sent the army into this same state. Soldiers were sent in again after this bloody attack. In

total, there are more than ten thousands troops deployed in the north of the country in the war against drugs and more than two thousands in Chihuahua. These two states, Sinaloa and Chihuahua, are part of the territory (which also includes the states of Sonora, Durango, Jalisco and Nayarit), under the control of the Sinaloa cartel, also known as « los Zetas ».

Following the arrests and imprisonment of a number of cartel leaders, a list of 22 people targeted to be killed (particularly municipal officials) was placed in a Sinaloa cemetery. Since then, seven of those 22 people have been assassinated, starting on May 8 with Judge Edgar Millán Gómez, chief of Mexico's narcotic section; three others have been injured. Twelve on the list have resigned their posts and only one policeman remains on the job. Three Mexican police chiefs have requested asylum in the United States. The chief of the municipal police of Ciudad Juarez is among those that have resigned. Every day, threats on the police radio waves are heard, especially in those territories that have not wanted to surrender control to the traffickers. Ironically, even recruitment ads from narcotraffickers for the police force are heard.

What about regional security? The previous Canadian Foreign Affairs Minister Maxime Bernier, declared last May 24 that drug cartels represented a threat for the security

of Mexico and the region. Canada, backing the United States, is one of President Calderón's allies in this war against traffickers.

Is Mexico a governable country?

The war against drugs led by the conservative Mexican State is largely shaped by the United States within the framework of the Mérida Initiative (signed in March 2008). In return for Mexico's efforts in this war, the United States is committed to providing a sum of \$1.4 billion over three years to Mexico (and Central America). The aim is to ensure security of the region, yet, the magnitude of the damage resulting from this war is about to transform the Mérida Initiative into a second Plan Colombia.

Mexico is at risk of falling under the category of a new "rogue" state. The explosion of grenades during Morelia's independence day in Michoacán last September 15, attributed to La Familia gang, reinforced the possibility of such a fall for Mexico. Seven people died and 101 were injured in the incident. For the first time, destabilizing actions against the Mexican State from drug cartels targeted civilians.

President Calderón's efforts to "purge" the police of its corrupt elements in order to fight more effectively against drug traffickers are noble in themselves. In fact, what is more difficult to understand is the time that successive leaders of this

country have needed to realize the importance of this task and take action. It is inaccurate to make a direct association between the high number of victims and recent government actions to gain control; in fact, they are instead the result of the neglect and the failure of governments who have held power for many decades. The Mexican State's weakness has allowed the mafia to expand its territory and penetrate its administration. The mafia, by its very nature, becomes a pseudo-authority that seeks to fill the voids left by government, often becoming the solution in response to citizens' needs and thus replacing the State.

Promotion of regional security

Securing authorities' allegiance, imposing law and order and defending its boundaries are all essential actions constituting a strong State. The advantages of increased regional security are many and Canada is deeply concerned as is the United States. How can the Canadian government participate in the pacification and revitalization of the Mexican State? It seems necessary to go back to the source of the problem; in other words, analyze the economic incentives in Mexico that encourage drug trafficking. Just looking at the meager Mexican police salaries (approximately \$US 8,400 per year) (Paul, 2008) says a lot; such low revenues are a reason to look for sources of complementary income. Furthermore, the illegal migrant streams are a symptom of the glaring unemployment and precarious conditions of a high percentage of workers. In order to combat poverty, international aid should endeavour to develop policies that favour job creation, support productive

2008: Supply Shock in the Cuban Economy

Pavel Vidal Alejandro

In 2008, the Cuban economy suffered a worsening of the terms of exchange for its most important commodities—the price of oil and imported food went up, while the price of nickel went down. At almost the same time, two hurricanes made landfall and broke historical records in terms of damages caused. This situation endangers both the high growth rates and the monetary stability that the Cuban economy has enjoyed since 2004 and 1995, respectively.

In recent years, the current account in the balance of payments has shown surpluses of \$140 million (2005) and \$488 million (2007), which were based on the export of technical and professional services, mostly to Venezuela. In 2007, however, exports had already begun to slow down, and foreign debt increased by 14.3 per cent with the

yearly interest payments to service this debt growing accordingly. The worsening of the terms of exchange, coupled with export and foreign debt dynamics, leads to the prediction that the balance of payments will show a negative balance for 2008.

Internal imbalances will necessarily have an adverse effect on the growth of Cuba's gross domestic product (GDP), which is usually restricted by the balance of payments. The functioning of the country's economy depends on the import of intermediate and capital goods. Therefore, the availability of foreign currency to purchase imports puts a limit on economic expansion.

Since 2004, Cuba's GDP has been growing faster and faster, hitting its highest growth rate, 12.1 per cent, in 2006. In 2007, GDP growth was 7.3 per cent. The Centre for Research of

projects in rural areas and encourage better administration of public expenditures (including setting tax rates according to revenue, similar to those in Canada).

Better control of illegal arms traffic coming from the United States is also essential. The entry of high caliber arms continuously strengthens the advantage of criminal gangs over the authorities. Improving public expenditure management, and particularly developing other sources of revenues for the State (other than PEMEX, the national oil company),

is key to generating the public income required to pay officers better salaries, to have better protection for them and their families, and to eradicate corruption within the police force. 

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the Cuban Economy (CEEC) estimates that this figure will be smaller than five per cent in 2008.

The worsening of the terms of exchange is a threat not only to the country's GDP, but also to its monetary stability. The increase in the price of imports leads to pressure to increase domestic prices. There already is evidence of this as the state's network of gas stations oversaw an increase of over 70 per cent in fuel prices in early September. Although the government can provide subsidies to offset this growth in prices, in the long run this policy would prove inflationary through an increase in fiscal spending.

Monetary stability is also endangered by the pressure that balance-of-payment imbalances exercise over currency exchange rates. This would not be an immediate problem, as the two currencies that circulate in Cuba (the Cuban peso and the convertible peso) are traded on fixed exchange rates. These rates, could, however, be modified as a matter of economic policy, depending on the adjustment and international reserve strategies that the Cuban Central Bank is willing to implement to sustain them.

The hurricanes have worsened this scenario. An initial estimate calculates that the hurricanes have caused over \$5 billion in damages.

The subsequent negative effects of the hurricanes on GDP include:

1) Harvest losses, including damage to agricultural facilities and tools, which will affect future production.

2) Damage to factories, warehouses, infrastructure and other facilities and means of production,

which hampers production of goods and services in different sectors.

3) Redirection of expenditure toward the reconstruction of housing, means of production and infrastructure, resources that could have been used for new investment.

The hurricanes' effect on GDP is not any greater because services

Structural transformations are the ones that will drive renewed economic growth.

account for more than 70 per cent of GDP and its positive growth is determined mainly by agreements with Venezuela.

In 2008, the fiscal deficit will have to grow as a consequence of the expenditures required to repair hurricane damages. Between 2000 and 2007, budget deficits stood at an average of 3.2 per cent of GDP.

The decrease in the country's food production, also caused by the hurricanes, will increase the domestic prices of agricultural products. Inflation has been under control since 1995; in 2007, the inflation rate was 2.8 per cent. Inflation will grow at an accelerated rate from this year onward, initially as a result of supply-side shortfalls. However, it is possible that demand-side factors will also emerge if the fiscal deficit grows and economic policy looks to avoid a recession, which is what has usually happened in Cuba in the past.

Overall, the Cuban economy is currently in a complex predicament,

which economists usually term "negative supply shock." This creates difficult choices for the development of economic policy. On the one hand, the current situation demands an expansionary economic policy that stimulates domestic production and creates a non-recessive adjustment through an increase in government expenditure, credit, money in circulation, and currency devaluations. On the other hand, supply shocks also jeopardize monetary stability, because they create pressures on inflation and exchange rates; in turn,

this demands a contractive monetary and fiscal policy that avoids a sustained increase in prices, currency devaluations, and monetary instability. What option should economic policymakers choose? Should it prioritize economic growth or monetary stability?

As is well-known, this is a very complicated question, and there is no standard answer within economic theory. The current dilemma, which ties the hands of fiscal and monetary policies, reinforces the need for structural reform in the Cuban economy. Monetary and fiscal policies will lead to an intelligent adjustment and to the preservation of monetary stability; however, structural transformations are the ones that will drive renewed economic growth. 🌐

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2008: El Shock de la Oferta de la Economía Cubana

Pavel Vidal Alejandro

La economía cubana ha sufrido en el año 2008 un deterioro significativo de los términos de intercambio—incremento del precio de los alimentos importados y el petróleo y la disminución del precio del níquel—así como los embates, casi de manera simultánea, de dos huracanes con daños que superan todos los datos históricos.

Tal escenario pone en peligro las altas tasas de crecimiento que ostenta la economía desde 2004 y la estabilidad monetaria que se ha conservado desde 1995.

La cuenta corriente de la balanza de pagos registró un superávit, en 2005 y 2007, de 140 millones y 488 millones de dólares, respectivamente, apoyado en el crecimiento de las exportaciones de servicios profesionales y técnicos, principalmente hacia Venezuela.

Sin embargo, las exportaciones ya habían comenzado a desacelerarse y la deuda externa había aumentado 14.3 por ciento en 2007, incrementando con ello los pagos de interés que debe efectuar el país cada año. Como consecuencia del deterioro de los términos de intercambio, la dinámica de las exportaciones y de la deuda externa se prevee para 2008, un saldo deficitario en la balanza de pagos.

Los desequilibrios externos deben tener un efecto adverso sobre el crecimiento del Producto Interno Bruto (PIB) cubano, que tiende

a estar restringido por la balanza de pagos. El funcionamiento de la economía depende de la importación de insumos intermedios y de bienes de capital. Así, la disponibilidad de moneda extranjera para pagar importaciones impone un límite a la expansión económica.

Son las transformaciones estructurales las que permitirán impulsar nuevamente el crecimiento económico.

Desde 2004, el PIB presentó una aceleración, alcanzando la mayor tasa de crecimiento en 2006, con 12.1 por ciento. En 2007, ese indicador creció 7.3 por ciento. Para 2008, las estimaciones del Centro de Estudios de la Economía Cubana (CEEC) ubican el PIB por debajo de 5 por ciento.

El deterioro de los términos de intercambio no sólo afecta el PIB, sino que también constituye una amenaza para la estabilidad monetaria. El incremento de los precios de los productos importados presiona al alza de los precios internos. Ya se tienen las primeras evidencias en el incremento en más de 70 por

ciento de los precios del combustible, medida adoptada en la red de gasolineras estatales a inicios de septiembre. Aunque el Estado tiene la opción de subsidiar los incrementos de precios, a la larga esta política también sería inflacionaria, pues incrementaría el gasto fiscal.

La estabilidad monetaria igualmente se pone en peligro por las presiones que ejercen los desequilibrios de la balanza de pagos sobre los tipos de cambio. Esto no sería una reacción inmediata, pues las dos monedas nacionales en circulación (peso cubano y peso convertible) se rigen por un régimen de tipo de cambio fijo. Sería una decisión de política económica en función de la estrategia que se implemente para el ajuste y de las reservas internacionales que el Banco Central

está dispuesto a emplear para sostener los tipos de cambio.

Los huracanes, por su parte, vienen a agravar todo este escenario. Un primer estimado indica que los huracanes han provocado daños que suman los \$5.000 millones.

Los efectos negativos sobre el PIB vendrían dados, fundamentalmente, por:

1) La pérdida de cosechas, así como los deterioros en las instalaciones y medios de producción en la agricultura, que afectarán las producciones futuras del sector.

2) Los daños a fábricas, almacenes, infraestructura y otras instalaciones

y medios de producción que dificultan la producción de bienes y servicios en diferentes ramas y

3) La reorientación de gastos hacia las actividades de reconstrucción de viviendas, medios de producción e infraestructura en detrimento de los recursos que podrían haberse empleado en nuevas inversiones.

Se estima que los impactos en el PIB no serán mayores debido a que más del 70 por ciento está constituido por servicios y su crecimiento positivo está inducido principalmente por los acuerdos con Venezuela.

Se espera que en 2008 el déficit fiscal se incrementara como consecuencia de las erogaciones presupuestarias necesarias para enfrentar los daños de los huracanes. El promedio de 2000 a 2007 fue de 3.2 por ciento del PIB.

La contracción de la producción nacional de alimentos por los huracanes aumentaría los precios internos de los productos agrícolas. La inflación se ha mantenido bajo control desde 1995. En 2007, la tasa de inflación fue de 2.8 por ciento. Se estima que la inflación se acelerará a partir de este año, como resultado de presiones que, en un inicio, vendrían de la oferta, pero es probable se le sumen factores de demanda, si efectivamente aumenta el déficit fiscal y se asume una política económica no recesiva, como ha sido usual en Cuba.

En resumen, la economía cubana se encuentra en estos momentos en una situación compleja, que los economistas suelen denominar como "shock de oferta negativa". Este es el caso que implica las may-

ores disyuntivas para el manejo de la política económica. Por una parte, la presente situación demanda una política expansiva que estimule la producción interna y ayude a un ajuste no recesivo, mediante el incremento del gasto fiscal, el crédito, la cantidad de dinero y la devaluación de los tipos de cambio. Sin embargo, por otra parte, el shock de oferta también pone en riesgo la estabilidad monetaria, al generar presiones sobre la inflación y los tipos de cambio. En contraposición, ello demanda una política monetaria y fiscal contractiva, que evite el aumento sostenido de precios y la devaluación e inestabilidad de los tipos de cambio.

¿Qué debe hacer entonces la política económica?, ¿debe actuar en función del crecimiento económico o de la estabilidad monetaria?

Como es conocido, la respuesta no es sencilla y no existe una propuesta única en teoría económica. La disyuntiva actual, que mantiene en gran parte atadas las manos a las políticas monetaria y fiscal, sirve para reforzar la necesidad de reformas estructurales en la economía cubana.

Las políticas monetaria y fiscal contribuirán a un ajuste inteligente y a la preservación de la estabilidad monetaria, pero son las transformaciones estructurales las que permitirán impulsar nuevamente el crecimiento económico. 

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Renewed Diplomatic Exchange Between the EU and Cuba

The signing of a declaration between the European Union (EU) and Cuba marks the end of five years of sanctions. The agreement indicates the EU's willingness to engage in political dialogue with the communist country.

The EU has also vowed millions of Euros in relief aid. This money will be vital in Cuba's recovery from Hurricanes Ike and Gustave, which caused billions in damage when they hit the island in September. The EU mounted sanctions against Cuba in 2003 in response to the mass imprisonment of dissidents.

However, the replacement of Fidel Castro by his brother Raul in 2006 encouraged the restoration of ties. This decision puts the EU at odds with the United States, who maintain an economic embargo against communist Cuba. However, the official agreement between the EU and Cuba was followed by a UN vote in favour of lifting the American embargo on Cuba. The US was not among the 185 of the 192 members of the UN's General Assembly voting against the embargo. While the decision to end the embargo is ultimately up to the US, the combination of international pressure and new American leadership following the November elections could lead to a reconsideration of 46 years of embargo.

Mexico Business Summit

November 9-11, 2008
Monterrey, Mexico

Rising inflation, declining oil production, global financial volatility are among the new challenges that Mexico is confronting and that need concerted actions. What are the options for addressing these issues in a way that will enhance Mexico's long-term prospects? Mobilizing Mexico's resources means inspiring the Summit's participants in leading their corporations and institutions toward greater innovation and creativity, especially in the context of increasing Asian competitiveness challenge.

Visit www.mexicobusinesssummit.org to register for this conference.

Friends of the Democratic Charter calls on Nicaragua to respect democracy during November 9 elections

Visit FOCAL's web site www.focal.ca to see the letter in Spanish and English as well as FOCAL's supporting news release.

FOCAL Supports Caribbean Civil Society involvement at the 2009 Summit of the Americas

Visit FOCAL's web site www.focal.ca to see FOCAL's news release and information on an event that attracted 100 civil society representatives in Trinidad & Tobago.

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