

INSIGHTS FROM THE FIELD

FOR POLICYMAKING AND BUSINESS IN LATIN AMERICA

This is a quarterly bulletin produced in Buenos Aires, Argentina with the aim of providing in-country perspectives on politico-economic and security issues in the Latin American region. It draws on insights from regional scholars, government leaders and business executives.

EDITOR'S NOTES

THIS IS AN OPPORTUNE TIME to launch a new regional publication. The New Year, a new US Administration and the upcoming hemispheric summit provide an opportunity to review happenings in Latin America and reflect on their significance and implications for US policymakers and business executives.

Latin America has transformed in the last decade. Economic growth, more diversified strategic partnerships, and increased political and military autonomy from the US mark major shifts for many regional governments and their citizens. Since the collapse of hemispheric trade talks in 2005, governments have proven less inhibited in expressing dissent to US policy and have boldly forged ahead with independent intra-regional and extra-regional projects.

In order to engage Latin America appropriately and effectively, it's imperative to understand the changes underway and how they are perceived by government officials, business executives and scholars located in the region.

The purpose of this bulletin is to facilitate a more nuanced comprehension of the economic and security issues that Latin American countries are facing in order to foster friendlier ties, more investments and better policymaking.

Janie Hulse

POLICY SHIFTS | BUSINESS MOVES | DEFENSE MATTERS

POLICY SHIFTS

- ▶ The Argentinean and Chinese governments announced a three-year currency swap agreement in late March 2009 providing cash-strapped Argentina access to US\$10.2bn worth in Yuan to pay for Chinese imports and other transactions on an as-needed basis. The swap is the first of its kind for China in the region.
- ▶ Venezuelan President Hugo Chávez won a referendum on February 15 with support from nearly 55% of the electorate to abolish elected officials' term-limits set by the Constitution. The victory reversed a December 2007 "No" vote and will allow Mr. Chávez to run in the 2012 election after 14 years in power.
- ▶ The Heads of State of Latin American and Caribbean countries partici-

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INDUSTRY TREND SPOTLIGHT

A REVIVAL OF SOUTH AMERICAN DEFENSE
After years of neglect, South American militaries are getting a boost thanks to strong leadership, re-vamped strategies, regional collaboration and bigger budgets allowing for the procurement of new, state-of-the-art equipment. And the region's top reformer –Brazil– is becoming one of the world's most successful manufacturers of military aircrafts. The current financial crisis is likely to thwart some military spending plans but is unlikely to derail modernization efforts. In fact, the downturn could accelerate regional defense collaboration and create a multiplier effect in the region's growing, strategic industry.

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pated in a summit led by Mercosur (namely Brazil) and including the newly inaugurated Unasur (Union of South American Nations) members in Costa do Sauípe, Brazil on December 16 and 17, 2008. The assembly aimed to reinforce regional integration and increase regional cooperation towards sustainable development. The United States was not invited and Cuban President Raúl Castro was the most celebrated participant.

► At end 2008/early 2009, regional governments began responding to bleak economic circumstances and forecasts with large stimulus packages:

- Argentina's Cristina Fernández de Kirchner announced US\$21bn public works projects and a US\$3.9bn initiative geared toward stimulating domestic consumer spending and export-oriented production.
- Chilean President Michelle Bachelet launched a fiscal stimulus package totaling US\$4bn aimed at protecting growth and employment.
- Mexican President Felipe Calderón announced a \$US8.6bn counter-cyclical plan with a focus on job creation and an emphasis on public health.
- The Brazilian government of Luiz Inácio Lula da Silva injected US\$100bn into its banking system and currency market, slashed consumer interests rates and flirted with import control measures.

► Ecuador's government withheld an interest payment of \$30.6m on its foreign bonds due on December 15, 2008 in spite of having reserves of \$6bn available to meet the bill. This made it the first sovereign to do so since Argentina's default in 2001. The president, Rafael Correa, was responding less to deteriorating economic and fiscal conditions than to a belief that much of Ecuador's debt was contracted illegally.

BUSINESS MOVES

► China signed a major deal with Brazil's state-owned oil company, Petrobras, on February 19. According to the agreement, Petrobras will get US\$10bn to extract oil and, in exchange, will supply 100,000-160,000 barrels of oil a day to Unipet Asia, a subsidiary of China Petroleum and Chemical Corp. (Sinopec). The deal will help finance Petrobras' plan to invest US\$174bn in exploration and production in the next five years.

► The Panama Canal Authority exceeded expectations by securing US\$2.3bn in financing toward its US\$5.3bn multi-year expansion program from the following multi-lateral donors: Japan Bank for International Co-operation, the European Investment Bank, the Inter-American Development Bank, the World Bank's International Finance Corps and the Andean Development Corp.

► Bolivian state oil company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) has recently signed joint-venture investment agreements with Venezuela's PDVSA, Russia's Gazprom, France's Total and others, but lacks capital to fulfill its share of the partnerships. The Bolivian government intends to borrow US\$1bn from central bank reserves to remedy this situation.

DEFENSE MATTERS

► Russia conducted two-days of joint naval exercises with Venezuela in early December, involving a nuclear-powered cruiser and three other Russian ships. It was the first time a Russian fleet was sent to the region since the Cold War.

► Argentina's Defense Secretary, Nilda Garré, announced the government's purchase of Lockheed Martin's stake in the Cordoba airbase, effectively removing the US company on December 31, 2008. The government intends to create a national aviation company in association with Brazil's Embraer.

► Cuba became the 23rd member of the Rio Group of Latin American nations at a foreign ministers' meeting in Mexico on November 13. Since its establishment in 1986, Cuba was the only regional government that remained outside the Rio Group, an association of Latin American countries seeking regional security cooperation.

► In late December, the French President Nicolas Sarkozy and the Brazilian President Luiz Inácio Lula da Silva signed in Rio de Janeiro what they're calling "historic" defense accords. The signed deals include Brazil's purchase of 50 helicopters for US\$2.6m and the construction of one nuclear-propelled and four conventional submarines, reported by the press as worth US\$9bn. President Lula claims France's assistance will allow his country to modernize its military and implement its new defense strategy released on December 18, 2008.

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BRAZILIAN GEOPOLITICS IN THE TWENTY-FIRST CENTURY

BY FABIÁN CALLE *

ARTICLE SUMMARY

WHILE BRAZIL FACES MANY INTERNAL SOCIO-ECONOMIC AND POLITICAL CHALLENGES, THERE IS NO DENYING THAT THIS SOUTH AMERICAN GIANT IS RISING AS A REGIONAL POWER AND GLOBAL PLAYER. ITS INCLUSION IN THE G-20 AND G-8, ITS INCREASED INVESTMENT GRADE AND RAMPED UP MILITARY SPENDING ARE TESTAMENTS TO ITS CHANGING GLOBAL STATUS. BRAZIL'S INCREASING CONFIDENCE AND INFLUENCE IN LATIN AMERICA IS LIKELY TO CREATE FRICTION WITH THE UNITED STATES THAT STILL VIEWS THE REGION AS ITS NATURAL SPHERE OF INFLUENCE. BUSH TURNED A BLIND EYE TO BRAZIL'S INCREASING SOFT-POWER. IT REMAINS TO BE SEEN WHETHER OBAMA WILL DO THE SAME.



► Lula accompanied Cuban President Raúl Castro on a visit to the "Civil Defense Joint Staff" in Habana on October 31, 2008.

in the late 1960's. The very weight of the new and future position of Brazil is not free from areas of tension, rivalry and distrust with the United States. This is to be expected in a situation involving a global superpower that tends to see the American hemisphere as its basic sphere of influence and a regional power that will logically look toward widening its sphere of influence on its periphery, namely in South America and to a certain degree the Caribbean and Central America. In other words, the mid to long-term future of the relationship between Washington and Brasilia would seem to be marked by a structural propensity toward greater degrees of conflict and confrontation not exclusive of opportunities for adaptation and cooperation.

The recently deceased Samuel Huntington, in an essay from 1999, pointed out this reality and how the U.S. had better try to counteract the increasing power of Brazil by forming a closer tie with the "second" power of the region, namely Argentina, and how Argentina should be particularly interested in the same. It is important to remember that some relevant Brazilian institutions, such as its Armed Forces and intelligence agencies, tend to

THE GROWING NUMBER of references to a rivalry between Brazil and Chavez's Venezuela over the leadership of South America does not appear to correspond to the elements of national power (both objective and subjective) that each country possesses. The combination of material wealth and economic and political stability achieved by Brasilia, along with the existence of certain basic points of consensus regarding foreign policy and security, seem to give Brazil the agenda and role of a regional power and an emerging global player.

In recognizing Brazil's ascent, however, one mustn't give way to exaggerations that don't give fair consideration to the real challenges that this South American giant historically faces-- its difficulties with projecting power; its grave socioeconomic problems; the lack of warfare and resulting budgetary limitations in the defense sector; the persistent and growing problems of organized crime and drug trafficking; a generalized suspicion of corruption in both public and private spheres; and technological dependence in various key sectors.

Yet little doubt remains that things have started to change for Brazil. The following events support this idea:

- Brasilia's presence at the head of forums like the G-20; the broadening of the G-8 meetings to include Brazil itself, along with India and South Africa;
- the designation of Brazil by the European Union as a strategic partner;
- the laudatory references issued from the White House to Lula da Silva's moderating role in the region;
- the founding in 2003 of the G-4 (Japan, Germany, India and Brazil) - which tends to propel countries into permanent membership in the Security Council of the UN;
- its political decision to go forward with the construction of a nuclear-powered submarine;
- the reiterated praise coming from institutions like the IMF and World Bank;
- and the achievement of "investment grade" for Brazilian bonds.

Its changing status, which as we have seen is not exempt from frailty and problems, leads Brazil, and will surely lead it even more in the future, to behave in a way that is qualitatively different from that of "a key country" for Washington in South America, as Henry Kissinger liked to call it starting

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include in their hypotheses of conflict both the interference of criminal groups and non-state armies in the Amazon region and the possible intervention of external military forces ("extra-regional powers").

At the height of Chávez's economic and political power, Brazil appeared to be an agent of conflict with regards to certain actions and policies emanating from Caracas. That said, it is also true that Brasilia supported Caracas in 2002 with the search for mechanisms to prevent the collapse of the Venezuelan leader's government-- carried out through a series of actions that ranged from the formation of the "Group of countries that are friends of Venezue-la" to the granting of oil assistance to stand up to the managerial strike of PDVSA between 2002 and 2003. And in the words of Lula da Silva, "[. . .] Chavez has been an exceptional ally in politics and commerce. He is a partner. We have no problem with Venezuela; neither does Argentina or Chile. I told Chavez the other day that it is as if in a Formula 1 race, his car were going 300 kilometers per hour while ours went 280 or 290 [. . .]."

At the same time, Brazil's diplomatic corps had issued warnings about Brazil's relationship with the Bush Administration. Moreover, in late 2008, the Brazilian Ambassador in Washington, Roberto Abdenur, criticized Chancellor Amorim for the "anti-American" content of many of his policies.

IN THE FACE OF THIS PANORAMA, BRAZIL APPEARS TO RECOGNIZE THE POSSIBILITY, OR RATHER THE NECESSITY, TO IMPLEMENT AN OSCILLATING POLICY THAT LOOKS TO TAKE ADVANTAGE OF ITS PRESTIGE WHILE AT THE SAME TIME TRYING TO AVOID A RADICAL ESCALATION OF THE CONFRONTATION BETWEEN CARACAS AND WASHINGTON.

While Brazilian actions have led others elsewhere –especially in certain sectors in Argentina– to perceive a "neo-liberal Lula" aligned with the U.S., its following actions/behaviors indicate a different reality:

- ▶ The active investment policy, making use principally of state funds, of the Brazilian oil company in countries like Venezuela and Iran.
- ▶ Brasilia's posture of defining the FARC as an insurgent group rather than as terrorists.
- ▶ The recent strategic and military pre-agreements and agreements signed with France and Russia.
- ▶ The direct and indirect references in Brazil's defense sector to the need to be prepared for an "asymmetrical resistance" in the face of the possible "interference of an extra-regional superpower".
- ▶ The recent, fluid and friendly visit of Lula to Fidel Castro.
- ▶ The refusal to allow the International Atomic Energy Agency complete access to Resende's uranium enrichment plant.
- ▶ And, in the economic and commercial realm, the refusal to move forward with the FTAA as desired by Washington; frequently taking Americans to WTO conflict resolution panels, and the signing of numerous commercial agreements during the Brazilian president's recent visit to Cuba.
- ▶ The vote abstention of the Brazilian delegation at the INTERPOL Assembly (a point which will be developed later) in late 2007, at which Argentina (with the active support of Israel and the U.S.) demanded the international capture of a Lebanese citizen and other subjects of Iranian nationality for the attack on the AMIA Jewish community center in 1994.

In the face of this panorama, Brazil appears to recognize the possibility, or rather the necessity, to implement an oscillating policy that looks to take advantage of its prestige while at the same time trying to avoid a radical escalation of the confrontation between Caracas and Washington. A somewhat compatible partner with whom to carry out this difficult but certainly realist strategy would appear to be Argentina in particular and Mercosur in general. This brings us back to Brazil's refusal to vote on the AMIA case at the annual INTERPOL assembly in Morocco. On November 5, 2007, the Argentine judge and the national government issued a warrant for the international capture of five Iranian and one Lebanese citizens considered to be responsible for the terrorist attack against the Jewish community center in 1994. In this case, the wide majority ruled to support Argentina's position. Brazil, which is a key both to regional policy in general and to Argentine foreign policy in particular, abstained from voting. And Venezuela didn't send a delegate to cast a vote. The Bolivarian Ecuador under Correa voted in favor of Argentina's claim and Nicaragua voted against it.

As was to be expected, Washington, Buenos Aires and Tel Aviv were the principal driving forces behind the warrant for capture. The superpower and its close ally in the Middle East have diverse agendas of conflict with Tehran that

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► Brazilian Embraer's Super Tucano in flight -The military surveillance aircraft has been sold across the region (Colombia, Chile and the Dominican Republic) and is emblematic of the growing strength of Brazilian defense production.

range from terrorist acts from the past attributed to Iran, Syria and Hezbollah to the hot nuclear issue and the relationship of the theocratic regime with Palestinian groups like Hamas.

Among the possible explanations for Brazil's conduct, various factors stand out: The U.S.'s disinterest in continuing to "secure" the Triple Frontier area; the importance of bilateral trade between Brazil and Iran; and the intense activity of Brazil's state oil company in this Persian power.

Another no less important aspect worth emphasizing is the scarcity of public repercussions for Brazil's "neutrality" and the fact that Lula may have to pay neither an internal political cost nor apparently an external one for his decision. To employ a possible point of comparison, let's imagine an inversion of the situation: Buenos Aires abstaining in the face of a call for justice, supported by Brazil, the U.S. and Israel, for an international terrorist act.

Brazil's vote abstention in the AMIA case should help us to analyze this regional power from a perspective deeper and wider than that of the recent trend predominant in certain political and social sectors of our country to see our large neighbor as being destined for unbridled, linear greatness, a faithful interlocutor to Washington, guarantor of judicial security, orthodox in the management of the economy and future protagonist in any and all relevant international institutions. Paradoxically, one decade ago many of these Argentine political and social agents characterized Brazil as a stiff elephant that had not found a short cut to the first world as Argentina had, and they viewed it as continuing to cling to industrialist, state-interventionist, and third world postures. Moving away from this childish posturing used for internal political debates in Argentina, it is worth remembering that in 1981, Wayne Selcher was editing a book on the ascent of Brazil as an "intermediate power" correlative to the "Brazilian economic miracle" of 1967-1973. Since 1955, the size of the Brazilian economy has surpassed that of Argentina and is currently 2.7 times greater according to the IMF's 2007 statistics.

Along the same lines, two renowned Brazilian specialists, M. Hirst and M. Regina Soares, in a recent article entitled "Brazil as an intermediate state and regional power" affirm that "since the beginning of the 20th century, the highest aspiration of Brazilian foreign policy has been to achieve international recognition." At the same time, the authors reaffirm the country's current interest in preserving its level of autonomy vis-a-vis Washington's policies and in accenting its participation in the international system and its principle institutions, knowing full well that its economic and military power is not considerable.

To this effect, in November 2007, Henry Kissinger expressed that the increase in the number of countries with veto power in the Security Council of the UN "should be reformed" (Brasilia's costly aspiration), though I tend to consider this "unlikely" due to Washington's indifference.

Finally, the authors highlight that "for the U.S., Brazil's importance in world affairs and security is very limited", the worry existing in certain sectors of Washington that a more prominent role of Brazil in South America could weaken the superpower's hegemony and that disputes over sensitive issues such as Colombia and Venezuela could escalate. In this respect, it is worth remembering the recent declarations of Brazilian Chancellor Celso Amorim characterizing Chávez as a democrat and refusing to refer to the Columbian FARC as a terrorist group. Similarly, during the long and more than friendly summit between President Lula da Silva and Fidel Castro in January 2008, one of

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the central topics, along with the signing of numerous important economic and trade agreements, seems to have been the task of moderating the tension between Caracas and Bogotá and redirecting humanitarian exchange in Colombia.

At the beginning of 2008, Brasilia advanced in the signing of a strategic and military cooperation agreement with France, and Defense Minister Jobim took an extensive trip through this European power and Russia to analyze armament-acquisition programs and cooperation in satellite technology for military use. The December 2008 visit of French President Nicolas Sarkozy to Brazil ratified this strategic agreement that, among other points, included the sale of four conventional Scorpene submarines (Chile has two in service), 50 transport helicopters and assistance for the construction of a hull (based on the Scorpene model) for a future Brazilian nuclear submarine.

BOTH PARIS AND MOSCOW ARE SEEN BY LULA'S GOVERNMENT AS KEY PARTNERS IN THE MODERNIZATION PROCESS OF THE ARMED FORCES.

The French-Brazilian agreement doesn't include anything related to how to develop a nuclear motor or enrich uranium. It's important to mention here the existence of a disagreement between Brazil and the International Atomic Energy Agency (IAEA) regarding the complete inspection of Resende's enrichment plant. The rumors of the alleged presence of Pakistani technology from the famous "Doctor Khan" in the factory may be an explaining factor. The document signed by Sarkozy and Lula expresses that Brasilia will not accept

the IAEA's demand for "additional protocol" (that is, for more thorough inspections) in its nuclear program. Both Paris and Moscow are seen by Lula's government as key partners in the modernization process of the Armed Forces. It is not by coincidence that allusions to France are made, either more or less directly, when the objective of the nuclear submarine is referred to. The same applies to the other "star" Argentine-Brazilian agreement of early 2008: the arrival of Embraer in the ex-military aircraft factory in Córdoba.

With regards to Brazilian Defense, a clear reflection of the "new era" can be seen in the forceful statements of General José Benedito de Barros Moreira in October 2007, a four-star officer in charge of the Defense Minister's important Secretariat of Politics and Strategy. He himself ratified Brazil's need for nuclear-powered submarines, as well as the consequent capacity to enrich uranium in Marine installations. To this effect, he cited the price Argentina paid during the Malvinas War for not having a similar arms program, and recalled the central importance that offshore oil and gas drilling has and will continue to have for the energetic security of the country. At the same time, he indicated that we are entering an international scenario in which more attempts will be made to pillage, either by pacific or military means, the natural resources of weak States; and that also on the rise will be the unacceptable hypocrisy that is manifesting in the world community which impedes certain developing countries from aspiring to control the technology necessary, should the need arise, to access nuclear armament.

This puts into perspective (without dramatizing or exaggerating) Brazil's political decision to strengthen its neglected and downcast Defense sector (it's important to note that the investment in the same vis-a-vis the GDP remains substantially low if compared to the cases of Chile and Colombia.) If Brasilia were to decide to bring itself to their level, it would have to designate around 30 billion dollars instead of 10 or 11 billion. And Argentina would border on 6 billion, compared to the little more than 2 billion dollars spent in 2007. In other words, Brasilia's military power is far from being, at least in the short and medium term, a factor that could be seen as the launching pad for armed expansionism or diplomatic blackmailing.

The Bush Administration's disorientation with regards to Latin America post 9/11, the Iraq war, and the existence of an ideological-economic challenge like that posed by Chávez, have facilitated Brasilia's task of incrementing power-attributes in the region (especially in South America, vis-a-vis the traditional categories of "Latin America" and "American hemisphere") without for the moment arousing the counter-measures that one would realistically expect from Washington in response Brazil's challenge to U.S. influence, in the medium and long term, in the region. It remains to be seen whether the Obama Administration is more sensitive than Bush's to the "soft power" of Brazil. ■

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CHINA'S SUCCESS IN LATIN AMERICAN TELECOMMUNICATIONS AND IMPLICATIONS FOR US SECURITY

BY JANIE HULSE *

ARTICLE SUMMARY

THE CHINESE ARE EXTREMELY ADEPT AT PENETRATING STRATEGIC INDUSTRIES IN EMERGING MARKETS. THEIR SUCCESS IN LATIN AMERICA'S TELECOMMUNICATIONS SECTOR, AND THAT OF ARGENTINA IN PARTICULAR, EXEMPLIFIES THEIR UNIQUE BUSINESS PRACTICES AND HOW THEY ENTER AND EXPAND IN CHALLENGING FOREIGN MARKETS. STATE-SUPPORTED CHINESE COMPANIES' SUCCESS IN THE REGION CONTRASTS WITH THE US PRIVATE SECTOR'S DWINDLING PRESENCE IN STRATEGIC REGIONAL INDUSTRIES, INCLUDING TELECOMMUNICATIONS. BOTH HAVE IMPLICATIONS FOR US NATIONAL SECURITY.



► Street signs of Buenos Aires sponsored by Mexican Mobile Operator Claro together with China's Huawei.

IN THE LAST DECADE, China has achieved what few political scientists thought possible in the 1990s: success in the capitalist system without becoming a liberal democracy. Its economic and political model is unique and other countries are now attempting to emulate it. The Chinese have a strong propensity for doing business beyond their border without complicating negotiations with ideological questions. Their formula has allowed them to penetrate markets around the world, with a particular flair for less rule-bound emerging markets. China's success in Latin American telecommunications reveals investments in a strategic sector while disposing of state-of-the-art technologies worthy of the "first world". This is not the China of yesterday focused almost entirely on securing food and primary resources for its more than 1.3 billion inhabitants or inundating the world with toys and knick-knacks. This is a global power looking to assure its future world predominance.

Francis Fukuyama, the well-known John Hopkins professor and the author of the "end of history" theory touting free markets and democracy as the only formula for success in the capitalist system, recently defended his 1990s thesis despite the advance of autocratic countries like Russia and China. He explained that neither of these countries, despite becoming more powerful, can challenge the capitalist system. Fukuyama's point of view is provocative and in many ways true. China's growing economic power results and depends on its participation in today's capitalist system created post-World War II. However, China with its growing consumer population and immense, cheap and increasingly skilled workforce is at a competitive advantage today within the capitalist system that Western countries dominated for over half a century. It has thrown out the traditional rule book and left Western companies and policymakers scrambling to compete.

China's success within emerging markets reveals the power of its unique business model. Its quick penetration of the strategic telecommunications sector in Latin America can be seen as an example of its formula: government-supported companies; long-term strategies; entering first in the periphery and later in urban centers; competing with low prices and a ruthless business culture. Its success in Argentina and the rest of Latin America shows how the Chinese are gaining strategic advantage in emerging and why it behooves Western companies and governments to pay attention to this trend in order to defend their competitiveness and national security.

The growing importance of Chinese and Latin American commerce is known and has been well-documented. In 1975, the commercial exchange between China and the region was about US\$200 million, but reached more than US\$70 billion in 2006 and is already topping US\$100 billion today. The commercial exchange between China and Argentina was US\$250 million in 1990 and, in 2007, was estimated at US\$10 billion with Argentina exporting agricultural products like soy and China exporting industrial materials, high-tech equipment and other items like toys and shoes. Until recently, China's non-financial investments in the region have been limited, focused mostly of ensuring access to primary products. There have been, however, an increase and diversification of its investment in the country more recently.

Today, there are 28 Chinese companies investing in Argentina, according to a representative from the Argentina-China Chamber of Commerce. To give some examples, there is a mining investment worth US\$30 million that gives the Chinese permission to exploit an iron mine in Rio Negro for the next 25 years. There is also a new Chinese metha-

CHINA'S SUCCESS WITHIN EMERGING MARKETS REVEALS THE POWER OF ITS UNIQUE BUSINESS MODEL.

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nol plant in Tierra del Fuego that required an initial investment of US\$250 million. Moreover, inspired by the huge finds off the Brazilian coast, the Chinese have an agreement with Argentina state oil company ENARSA to provide platforms for off-shore oil exploration. Yet some of the most interesting investments which are not related to securing primary resources are taking place in Argentina's telecommunications sector, mostly related to mobile communications.

Two companies from Shenzhen, China – Huawei and ZTE – have had tremendous success in Argentina's telecommunications sector in recent years. They started out providing mobile telephone equipment in Argentina's rural areas until they could foment good relationships with the country's big multinational operators in urban areas – Telefónica (Spain), Telecom (Italy and local Wherstein Group) and Claro (Mexico). Their low costs have helped catapult them into the position of preferred vendor for these companies inside Argentina and elsewhere in Latin America. Huawei has been particularly successful offering equipment and network services to these operators. In fact, according to the official company press, 20% of its revenues now emanate from the Latin American region. And its growth has been lightning fast. In 2007, for example, Huawei reports that its contract sales in the region grew 85% from the year prior.

Huawei and ZTE entered the Argentine market when other international companies were fleeing after the 2001/02 economic crisis. The US companies AT&T and Bell South, more worried about short-term earnings, sold their businesses to Telmex and Telecom, respectively. Meanwhile, these Chinese companies doubled their efforts to penetrate Argentina's weakened market only to reap dividends later on with over 8% growth rate from 2003 to 2007. Today, Nextel is the only significant US presence in the Argentinean telecommunications market. And it does not compete in the mass market with the Chinese; rather, it remains a niche player providing mobile radio communication mostly to businesses.

HUAWEI AND ZTE ARE CONSIDERED "NATIONAL CHAMPIONS" BY THE CHINESE GOVERNMENT AND THEREFORE RECEIVE SUPPORT FOR THEIR GLOBAL EXPANSION.

Huawei and ZTE are considered "national champions" by the Chinese government and therefore receive support for their global expansion. Indeed, Huawei was founded by the former director of the People's Liberation Army (PLA) General Staff Department's Information Engineering Academy, which is responsible for telecom research for the Chinese military. The company continues to serve the PLA as a client. And, according to the Rand Institute, represents the new "digital-triangle model" whereby the Chinese military, other state actors, and their numerous research institutes help fund and staff

commercially-oriented firms that are designated "national champions", receive lines of credit from state banks and R&D funding, and actively seek to build global market share. In contrast, their US and European competitors do not receive such state support and, therefore, are less tolerant of emerging market volatility.

The Chinese are long-term strategists. They don't measure their success in the short-term. They are a nation of people with a history extending back a few thousand years. According to an Argentinean specialist on China, Sergio Cesarín, the Chinese have a different concept of time from Westerners. Today, although their companies care about profit, their market strategy considers at least 5-10 years in the future. U.S. companies, in contrast, are obsessed with quarterly results, analysts' opinions and daily fluctuations in the stock market. A broader perspective coupled with significant government subsidies allows Chinese companies to position themselves strategically in a market, without fearing short-term or even medium-term losses. With this mindset, Huawei and ZTE were able to penetrate Argentina's telecommunications industry during the country's darkest economic days, becoming some of the most important equipment suppliers and network providers in the country (and in the region for that matter) in less than five years.

These companies first grew in small Chinese towns and cities and only later proliferated in urban centers, becoming some of the most important mobile providers in the country. They have employed this same formula in Argentina. Some analysts have compared their approach to the Maoist philosophy which promotes dominating the periphery first and later the center. In Argentina, Huawei y ZTE began in Argentina providing products and services to rural cooperatives and later approached big operators in the cities.

A large part of the companies' success stems from their ability to provide equipment and services at low cost. In general, the Chinese products and services are estimated to be 20-30% lower than the competition. China's secret is vast manpower, increasingly capable of high-quality production. It's very difficult for multinational companies with

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higher salaries to compete with the Chinese. Moreover, most are not willing to lower their prices or see their profit margins erode. Some, however, are starting to buckle under the Chinese pressure and are beginning to subtly lower their salaries. For example, one big international operator in Argentina has been lowering its sales force salaries by adjusting down the pay variables. According to a local salesman, his salary has been indirectly lowered three times in the last few years, forcing him to sell more in order to keep his pay steady.

The Chinese presence is not a minor detail for big telephone companies. Indeed, some industry analysts believe that the acquisition and merger agreements like those between Ericsson and Marconi, Alcatel and Lucent, Nokia and Siemens were in part designed to be able to compete better against Huawei and ZTE.

And the Chinese companies are not merely remaining complacent as product and service providers. They are now in talks to become mobile telephone operators themselves. Following their pattern, they are beginning in rural areas. According to an official at the Chinese-Argentina Chamber of Commerce, Huawei has begun talks with FECOTEL, the umbrella organization for fixed line cooperatives, to become its mobile provider in rural Argentina.

After years of experiencing Communist party restrictions, Chinese executives learned to take short-cuts in order to achieve their business objectives. Today, they are respected for their efficiency and managerial skills. They are also notorious for their authoritarianism, nepotism and corruption. This, however, has not been an impediment to doing business. On the contrary, business transactions with the Chinese tend to be quicker, free of political impositions and less transparent.

While their tactics have been criticized by some local business executives, they have proven successful in most cases. Indeed, the Chinese have a reputation for being so effective that when Hutchinson Whampoa, the Honk-Kong-based Fortune 500, entered the Argentinean market as a local mobile provider in low-income areas in the Buenos Aires suburbs early this decade, the big multinational players – Telefónica and Telecom – were up in arms to prevent the Chinese company's proliferation. Strong lobbying by these established players helped keep Hutchinson at bay. Telecom regulations have prevented Hutchinson from expanding its mobile service provision and have led to the near extinction of the company in Argentina's telecommunication's sector.

China's presence in Latin America's telecommunications sector has raised eyebrows up north for its potential implications for US national security. On April 6, 2005, The Western Hemisphere Subcommittee of the House International Relations Committee held a hearing on Chinese involvement in Latin America. At the hearing, Administration officials tended to downplay Chinese engagement in the region except in areas related to communications and intelligence. Deputy Assistance Secretary of Defense for Western Hemisphere Affairs Rogelio Pardo-Maurer testified that the United States needs "to be alert to rapidly advancing Chinese capabilities, particularly in the field of intelligence, communications and cyber warfare, and their possible application in the region."

The current Chinese military doctrine emphasizes Information Warfare as a means of overcoming military power asymmetries. In 1999, two senior colonels of the PLA, Qiao Liang and Wang Xiangsui, wrote a book on military strategy entitled in English "Unrestricted Warfare". In it, they discuss innovative forms of warfare where new concept weapons take center stage and there is nothing in the world that cannot be used as a weapon. They encourage China to overcome traditional military asymmetries with powers like the United States by placing new emphasis on information warfare (IW) methods such as attacking enemy financial markets, civilian electricity networks, and telecommunications networks. There have been other scholarly reports documenting China's interest in information warfare and even the Chinese army's official newspaper has highlighted the need to develop a fourth branch of the armed forces dedicated to IW.



► The PLA is Huawei's favored customer and research partner.

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CHINA'S SUCCESS IN LATIN AMERICAN TELECOMMUNICATIONS AND IMPLICATIONS FOR US SECURITY

Moreover, communications technologies today are more difficult to protect. They don't depend so much on physical infrastructure and they are more vulnerable to attack. An information security specialist, John Lowry, explains that countries need to be careful about who is operating their information networks and it's important to be aware of the sources of equipment and programs. These issues weren't as problematic for the United States when it dominated world communication systems, but today the US is no longer the world's communications center.

This is increasingly evident in the case of the Internet. In the first decades of the Internet, almost all Internet networks passed through the United States. Today, this is no longer the case. 10 years ago, 70% of all world Internet traffic passed through the US, today the percentage is estimated at 25%. And the future looks even more complicated for the US. According to technology specialists, the United States is losing its advantage in technological innovation. In a recent New York Times article, Judy Estrin, former Chief Technology Officer of Cisco Systems in Silicon Valley California, explained that US companies are too worried about the short-term and are more risk-averse, making innovation more difficult.

And according to the same report, only 5% of U.S. students graduate with engineering degrees, while 30-40% of students in China and India do. More worrying, 60% of the PhDs awarded in US universities are granted to foreigners who no longer want to stay to work the United States. There are more exciting opportunities in India and China.

China creates a major challenge for US business executives and government policymakers today. While its rapid economic growth of over 10% yearly for the last decade has created enormous business opportunity for Americans, their penetration of strategic industries, namely telecommunications, in emerging markets and their increasing capabilities with information technology make the US more vulnerable in a world dependent on wireless communications.

Confronting this challenge requires public-private sector cooperation. It is the responsibility of the federal government to set the stage for such cooperation and to increase research and understanding about the challenges that the US government and businesses face abroad, especially in developing countries often marked by populist governments and weak institutions.

US Policy toward Latin America requires more attention, more funding and longer-term objectives to confront such non-traditional challenges. On the surface, Latin America doesn't look like a threat to US national security beyond drug trafficking and illegal immigration. A closer look, however, reveals a changing strategic landscape that could undermine US political and commercial interests. To prevent future threats, it's necessary to think beyond the short-term.

A US business executive in Argentina who prefers to go unnamed explained that when you meet with the Chinese, they don't try to sell you cheap gear; rather, they try to sell you "the future". They promote their state-of-the-art research and development capabilities. (Indeed, Huawei has new R&D centers across the region.) He added, "The Chinese come here to win. They don't care if it's today or even tomorrow. They're just here to win." ■

INSIGHTS FROM THE FIELD

INTERNATIONAL CRISIS COULD ACCELERATE LATIN AMERICAN INTEGRATION

BY RICARDO RIVAS *

ARTICLE SUMMARY

2009 IS LIKELY TO BE A DIFFICULT YEAR FOR THE LATIN AMERICAN REGION WITH KEY ECONOMIES LIKE MEXICO, ARGENTINA AND VENEZUELA ENTERING RECESSION AND OTHERS LIKE BRAZIL AND CHILE BARELY ESCAPING SUCH A FATE. IN ADDITION TO THESE ECONOMIC CONCERNS, REGIONAL LEADERS ARE GRAPPLING WITH HOW TO DEAL WITH REGIONAL INTEGRATION PROCESSES ALREADY UNDERWAY. THESE INTEGRATION EFFORTS, EXPECTED BY MANY ANALYSTS TO ACCELERATE WITH THE CURRENT CRISIS AS GOVERNMENTS SEEK SHELTER WITHIN, ARE IMPEDED BY A MULTITUDE OF BILATERAL DISPUTES IN SOUTH AMERICA AND COMPOUNDED BY DIFFERENT STRATEGIC VISIONS IN LIGHT OF THE CHANGED GLOBAL CONTEXT OF MULTIPOLARITY.

NOTHING INDICATES that 2009 will be a promising year for Latin America. GDP growth projections are negative for many countries and less than two points in the best cases. Moreover, 40% of the region's inhabitants currently believe that they could lose their jobs this year, according to a recent TNS-Gallup poll.

The Economic Commission for Latin America and the Caribbean (ECLAC)- which refers to this grave situation as "the post-Lehman crisis"- noted in a "preliminary" economic report that a "strong fall in demand" in the region was evident by the end of 2008.

The Commission states that "the motors of growth are turning off one by one." More specifically, ECLAC predicts that during 2009 there will be a deceleration of exports; a reduction in the price of raw materials; a reduction in familial monetary help (i.e. remittances); a reduction in tourism-related income; diminished foreign direct investment; an increase in the cost of external credit; and a reduction of the availability of international financing.

In the words of Alicia Bárcena, executive secretary for ECLAC, "The international crisis affects all of us through different channels, though not equally".

Among the region's key economies, the prediction is that Mexico (-1.4%), Argentina (-1.8%) and Venezuela (-3%) will go into recession while Brazil (1.6%) and Chile (1%) barely escape such a fate.

Renowned non-neoliberal economists like Paul Samuelson and Joseph Stiglitz, among others, consider the entire world economic system to be in crisis. Others, such as Milton Friedman or Friedrich von Hayek, believe that greater regulation is necessary if we want to be able make predictions and control the market more effectively. Perhaps this period of crisis, analysis and dismal forecasts is the sign of a coming change of era whose advent could not have been clearly foreseen.

Given these regional and global circumstances, Latin America has entered 2009 with more uncertainties than truths. Beyond economics, one of Latin America's main concerns revolves around how to understand- in the light of new



► South American Leaders meet to form Unasur (Unión de Naciones Sudamericanas) in May 2008 in Brasilia.

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global dynamics- the evolution (present and future) of a series of integration processes that are taking place in the region simultaneously.

Within the region, South America has its own level of complexity. As José Miguel Insulza, General Secretary of the Organization of American States (OAS), stated during the most recent Ibero-American Summit in San Salvador, no less than four conflicts are affecting countries in that region alone:

- ▶ Bolivia's internal situation, in which President Morales Ayma is harshly questioned by his opponents.
- ▶ Tense relations between Paraguay and Brazil, whose respective leaders, Fernando Lugo Méndez and Luiz Inácio "Lula" da Silva, are discussing new terms of regulation for the bi-national hydroelectric benefits of Itaipú.
- ▶ Friction between Colombia and Ecuador, whose presidents, Álvaro Uribe and Rafael Correa Delgado, have profoundly different strategic and ideological visions.
- ▶ Disputes between Argentina and Uruguay over the environmental management of the Uruguay River, which are currently being handled by the International Court of Justice (ICJ) in the Hague after the arbitration court of Mercosur (the common market of the South) proved inadequate.

One could add the following, though less intense, conflicts:

- ▶ Differences in the bilateral relationship between Brazil and Ecuador that started when the latter threatened not to pay its external debt to the former after the construction of an important public energy project in Ecuadorian territory financed with Brazilian public funds.
- ▶ Venezuela's admittance as a full member into Mercosur, pending since mid-2006 due to the silence of the Brazilian and Paraguayan parliaments on the matter. Last January 15, during an official visit to Caracas (Venezuela's capital), the Brazilian President stated that Venezuela would be admitted by March "at the latest". However, even if Brazil were to approve Venezuela's entrance, the Paraguayan Congress would still have to voice its opinion.

And, adding a third level of complexity, one must consider the tensions that come from the varying strategic visions of Argentina, Brazil, Mexico, Chile and Venezuela- given their economic might and influence through the rest of Latin America. The integration process, therefore, will inevitably be influenced by 1) the type of regional organization they seek; and 2) their leaders' perspectives on multipolarity and their own aspirations within the new global context.

Moreover, it's important to enumerate some pending issues to be tackled by regional governments:

- ▶ A resolution - collective or not - of the effects caused in the area by the Middle East's most recent crisis associated with warfare in the Gaza Strip. There is an attitude adopted by some of the region's leaders -such as Evo Morales Ayma of Bolivia and Hugo Chávez Frías of Venezuela - that leans toward the breaking off of relations with Israel. In contrast, Brazilian Chancellor Celso Amorim travelled throughout Syria and Jordan, countries in the war-torn region, with the intention of mediating between clashing parties.
- ▶ The leading nations in the region should clearly define their respective strategic objectives with regards to the relationship they wish to pursue with the U.S., taking into account the possible downfall of this power's leadership: a possibility that has been predicted even by a study recently published by the US National Intelligence Council.

In the short term- regarding relations with the U.S.- the region's governments should aim for a precise understanding of President Barack Hussein Obama's agenda for Latin America. Moreover, each of the major countries of the region should define, with regards to its respective overall strategic objectives, the relationship it aims to have with the Peoples' Republic of China. This should be done in relation to the ideas expressed last November 5th in what Qin Gang, spokesperson for the Chinese Foreign Relations Ministry, referred to as "the first policy document for Latin America and the Caribbean", in which China defines the goals it would like to achieve in the region.

GIVEN THESE REGIONAL AND GLOBAL CIRCUMSTANCES, LATIN AMERICA HAS ENTERED 2009 WITH MORE UNCERTAINTIES THAN TRUTHS.

BEYOND ECONOMICS, ONE OF LATIN AMERICA'S MAIN CONCERNS REVOLVES AROUND HOW TO UNDERSTAND- IN THE LIGHT OF THE NEW GLOBAL DYNAMICS- THE EVOLUTION (PRESENT AND FUTURE) OF A SERIES OF INTEGRATION PROCESSES THAT ARE TAKING PLACE IN THE REGION SIMULTANEOUSLY.

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INTERNATIONAL CRISIS COULD ACCELERATE LATIN AMERICAN INTEGRATION

Brazil, as a global phenomenon, must also be analyzed from at least two perspectives: by each of the countries of the region alone and by those of regions and/or nations outside that wish to pursue relationships with Latin America. The Brazilian State is a member both of Mercosur and Unasur, President Lula's government having been the main driving force behind the latter. A recent report by PwC Consulting states that emerging economies could increase their participation in global production to up to 50.5%; that would represent a 6.8% increase over the 43.7% reached by December 2007. According to PwC's study, China, India and Brazil, among other countries, could achieve this increase within only five years.

Last January 20th, after meeting with President Da Silva during an official visit to Brazil, China's Foreign Relations Minister, Yan Jiechi, stated that the two countries "must continue with high-level exchanges and strengthen their Strategic Association". The Chinese high-level official also urged the countries to "strengthen friendly cooperation in trade, investment, finance, science and technology, culture and society; and [to] intensify coordination in international affairs with the aim of confronting the international financial crisis." BRIC (an acronym used to refer to Brazil, Russia, India and China) -- a group of countries considered likely to be active protagonists in the global economy in the medium term-- appears to have consolidated its position; and the region does not seem inclined, at least publicly, to propose other leaders.

Many firmly believe that one positive consequence of the post-Lehman crisis in Latin America will be an acceleration in the region's process of integration. Many initiatives and proposals conceived to overcome this crisis with as few negative consequences as possible could be supported by commercial means, or by the unification of customs or tariff agreements. However, even given this criterion for analysis, it would not be advisable to overlook the political and ideological issues that affect the area:

- ▶ Regional integration processes, though manifold and in some cases overlapping, remain limited - at least until the present moment.
- ▶ Regional leaders must reflect upon the meaning they assign to integrative actions, considering that integration involves collective concession: the mutual giving up of something to reach common goals or achieve the common good.
- ▶ The idea of strengthening integration in order to emerge from the crisis as unharmed as possible is clearly logical. However, its implementation will require a definition of the means of association, which will help to clarify which resources can be used to integrate and improve the standard of living of the peoples in question.
- ▶ With this in mind, it will become indispensable to analyze what type of connection can be achieved between Latin American Nation-States and projected Region-States such as Mercosur, the Andean Community of Nations (CAN) or Unasur. Note: Such a definition is of no small import, given that the immediate future of the region, in all its aspects, must be planned in relation to it.
- ▶ Within this context, given that agreements are possible, policies that will make long-term integration possible should be proposed.

CHILE, URUGUAY, AND BRAZIL, AMONG OTHER COUNTRIES, HAVE DEMONSTRATED -THROUGH THE ACTS OF THEIR LEADERS- THE WILL TO CREATE NEW TYPES OF CITIZENSHIP, SUPPORTED BY STATE POLICIES, IN ORDER TO INTEGRATE SOCIETIES THAT TEND TOWARD AGREEMENT. BUT UNFORTUNATELY, DISTRUST PERMEATES THE REGION. SKEPTICISM THRIVES IN MANY SOCIETIES WHOSE NEEDS ARE NOT MET.

Chile, Uruguay, and Brazil, among other countries, have demonstrated-- through the acts of their leaders-- the will to create new types of citizenship, supported by state policies, in order to integrate societies that tend toward agreement. But unfortunately, distrust permeates the region. Skepticism thrives in many societies whose needs are not met.

I agree with the Mexican scholar Romer Alejandro Cornejo Bustamante that the integration process is "limited" and that "the behavior of the respective groups of political elite (in the face of the crisis)" will vitally influence whether the process accelerates or not. Many of the protectionist anti-crisis measures adopted by some governments in the region have negative effects on the integration process.

Conversely, other measures designed to encourage internal consumption-- which can be assumed to increase tax collection such as the Value Added Tax (VAT) that don't raise unemployment-- actually stimulate the acquisition of goods

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ally stimulate the acquisition of goods produced in other countries. For example, President Cristina Fernández's recently implemented stimulus plan to encourage Argentine people's purchase of new cars benefits the Brazilian economy since most of the cars for sale in Argentina are produced in Brazil. However, no coordination takes place between both administrations to insure that the results sought have a positive impact, both direct and indirect, on the societies involved.

More concretely, just as the post-Lehman crisis and its effects may act as an accelerator for economic integration processes, it may also trigger or deepen old, current or new political tensions masked by other strategic issues. This is best exemplified by upset within Mercosur (with expressed displeasure by the Argentinians) over Brazil's decision to support trade liberalization, the position of the U.S. and EU, in the latest WTO Doha Rounds.

As a matter of fact, Latin America was not always plagued, as it is today, by multiple internal regional and/or bilateral conflicts.

The regional consequences of the post-Lehman crisis can only be ameliorated in Latin America if instruments apt for intra and extra-regional commerce are found or designed. If this objective is reached in the manner described above, the current crisis-- which has lead global economic powers into a recession that could culminate in depression in the coming months-- could have a positive side for Latin America due to its potential for producing increased integration. ■

NOTE: This is an abbreviated, translated version of the original text. You can request a copy of the original report in Spanish by sending an email to the author, Professor Ricardo Rivas, at: ricardorivas@fibertel.com.ar.

MORE CONCRETELY, JUST AS THE POST-LEHMAN CRISIS AND ITS EFFECTS MAY ACT AS AN ACCELERATOR FOR ECONOMIC INTEGRATION PROCESSES, IT MAY ALSO TRIGGER OR DEEPEN OLD, CURRENT OR NEW POLITICAL TENSIONS MASKED BY OTHER STRATEGIC ISSUES.

► INDUSTRY TREND SPOTLIGHT [continued]

THE LEADER OF THE PACK

Brazil is leading regional governments in its military modernization efforts. A decade ago, Brazil didn't even have a defense ministry. Instead, each of its armed forces --Army, Navy and Air Force -had its own independent ministry. In June 1999, these were unified under one national defense ministry. Since this significant re-organization, Brazil's military has grown in size, efficiency and prestige.

By 2007, Brazil's military spending reached US\$15.3bn, only 1.2% of its GDP but enough to put it amongst the world's largest defense spenders. According to the Stockholm International Peace Research Institute, Brazil was the world's 12th largest defense spender in 2007, ranked directly behind South Korea and ahead of Canada. Indeed, Brazil is the Western Hemisphere's second largest defense spender after the United States.

Brazil's defense budget for 2009 is a whopping US\$ 23.9 billion. The money will be spent in support of the country's new national defense strategy released in December 2008.

Despite its pacifist history, Brazilian leaders believe the country needs stronger defense against potential aggression if it is to continue on the road to becoming a global power. This new strategic vision calls for Brazil to invest in military technology, including satellites, and to build a nuclear-powered submarine fleet to protect its deepwater oil platforms. (In 2007 and 2008, Brazil discovered fields with a combined estimated 41bn barrels of recoverable crude oil, potentially converting Brazil into one of the world's largest oil producers.) The defense proposal also calls for an expansion of the armed forces to protect the country's Amazon borders and for retraining troops so they are capable of rapid-strike, guerrilla-style warfare.

The Brazilian military has the advantage of sourcing a substantial share of its equipment from Embraer, formerly a state-owned company and now the third-largest aircraft manufacturer in the world. Brazil is the only country in the region with a state-of-the-art defense capability.

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► INDUSTRY TREND SPOTLIGHT

SPENDING ON THE RISE

While South America remains one of the lowest military spending sub-regions in the world in terms of absolute spending, this is beginning to change thanks to modernization efforts by Brazil as well other key countries like Colombia and Chile. In fact, military expenditure in South America grew by 25% in 2008.

COLOMBIA

The combination of strong economic growth since 2004 and high levels of US aid have allowed Colombia to create and maintain one of the most admired armed forces in South America. In 2002, Mr Uribe's first year in office, US military and police assistance totaled US\$387m. In 2008 it had reached US\$434m. However, total military spending has risen at a much sharper pace given a doubling of Colombia's own defense spending. In 2008, Colombia allocated a hefty US\$12.3bn to defense. A good portion of the funds has gone toward modernizing Colombia's fleet of transport helicopters needed to fight mostly in remote jungle terrain.

CHILE

Chile's solid macroeconomic performance over the last two decades has allowed it to maintain its military spending at a high level. In 2008, Chile's military budget was approximately US\$2.6bn. While dwarfed in real-terms by Brazil and Colombia, at nearly 3% of the country's GDP, it devotes the largest portion of the country's revenues to defense. Moreover, Chile's armed forces remain well-equipped thanks to the decades-old copper law last amended in 1990 by the former dictator, General Augusto Pinochet, which directs 10% of annual copper export earnings to the purchase or renewal of military equipment. As a result, the Chilean military has become one of the region's most technologically advanced and professional. Since a 2002 defense white paper relegated potential local conflicts to second place, the Chilean military has been largely interested in conflict prevention and has focused on overseas force deployment mainly in peacekeeping operations. It also prioritizes disaster relief as Chile is prone to earthquakes. Instability and conflict of interests with neighboring countries, however, deter it from ruling out more traditional foreign threats.

FINANCIAL UNCERTAINTY

Stigmatized by their involvement in the region's dictatorships after the return to democracy in the early 1980s, the region's militaries are enjoying a sort of renaissance. Perhaps the exception that confirms the rule is Argentina, whose

military can't seem to overcome the baggage of its past and whose former leaders continue to be persecuted for activities during the dictatorship. Other key South American countries like those mentioned above and including others like Venezuela, Peru and Ecuador are on a clear path toward modernization.

Their efforts, however, may be undermined by financial problems as the international crisis adversely affects regional economies. After years of solid growth owed largely to primary product exports coupled with high international prices, regional economies are feeling the pinch of lowered demand and a steep drop in commodity prices. Most regional economies are expected to enter into recession this year with a few like Brazil and Chile barely avoiding such a fate. This will inevitably affect military budgets and spending moving forward. It remains, however, to be seen to what extent military modernization plans are impacted.

At present, South American leaders are attempting to join forces through a new South American Defense Council (SDC), created in December 2008 in Brazil and re-enforced by a declaration emanating from a defense ministerial meeting in Santiago Chile in March 2009. The SDC will not have a command structure but will be a forum for consultation and collaboration in the areas of Defense. There are also proposals on the table to create a strategic studies center and South American defense College to complement the SDC.

With a little luck, this collaboration will help buffer the region's defense from the effects of the current economic downturn. In any case, the economic crisis may hurt budgets and spending, but it is unlikely to derail the region's military modernization. South America, led by Brazil, is recognizing the need for strong defense as it asserts its independence from the United States and inserts itself into a new, multi-polar global order. ■

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► THIS QUARTER'S CONTRIBUTORS

FABIÁN CALLE

Professor at the Argentine Superior Joint War College, University Torcuato Di Tella and Catholic University of Argentina.

JANIE HULSE

Latin American analyst and the editor and producer of *Insights from the Field*.

RICARDO RIVAS

Journalist, Academic and former Sub-Secretary of Communications for the Republic of Argentina. University of Palermo and University FASTA in Argentina.

► OCCASIONAL ADVISERS

COL. (R) JOHN COPE, Senior Research Fellow,
Institute for National Strategic Studies (INSS) –U.S. National Defense University

DR. EVAN ELLIS, Assistant Professor of National Security Studies,
Center for Hemispheric Defense Studies –U.S. National Defense University

FERNANDO GUERRERO, J.D., Vice President,
Nextel Communications Argentina

GENERAL (R) JULIO HANG,
Director of the Institute for International Security and Strategic Affairs
CARI - Argentine Council for International Relations

DR. FRANCISCO PANIZZA, Senior Lecturer in Latin American Politics
London School of Economics

RICARDO RIVAS, Journalist,
Academic and former Sub-Secretary of Communications for the Republic of Argentina

J. PAUL JOHNSON, J.D., Latin American Specialist and Consultant
The White House Writers Group

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Reader opinions are welcome and may be sent to janiehulse02@yahoo.com.