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**Iran: Dim Prospects for Negotiations with the West**

On September 9, the Iranian government presented Germany and the five permanent members of the UN Security Council (Britain, China, France, Russia and the USA) with a package of proposals for renewing negotiations between it and the international community. Some observers had hoped that the Iranian document would address Western demands that Iran agree to halt its uranium enrichment activities in exchange for trade benefits. As it turned out, however, the long-awaited Iranian offer, which took the form of a rambling manifesto, made no mention of Iran's nuclear activities. Even prior to the release of the document, Iranian President Mahmoud Ahmadinejad ruled out the possibility that Iran would make any concessions on the nuclear issue and insisted that Iran would never abandon its uranium enrichment activities.

PRAD's View: The USA and several EU countries have threatened to impose additional economic sanctions on Iran unless it agrees to enter into substantive negotiations over its nuclear program by the end of September. Iran's non-starter proposal and Ahmadinejad's fiery public rhetoric have increased the likelihood that this latest round of negotiations between Iran and the West will fail. If negotiations do break down, the Obama administration will probably move to impose additional economic sanctions on Tehran, such as restricting the flow of gasoline exports and energy investments to Iran, in cooperation with other like-minded countries.

Despite the dim prospects for a resolution of the stand-off, the USA has so far refrained from saying anything that would convey the impression that Washington no longer wants to engage with Iran. Washington's strategy is probably to exhaust the diplomatic process before it resorts to punitive measures such as trying to impose additional sanctions. (J. Bitzan)

Asia



Taiwan: *Domestic political drama overshadowed by improved relations with China*

The past month has been a challenging one for the Kuomintang (KMT)-led government of President Ma Ying-jeou. Typhoon Morakot struck the southern parts of the island in early August, killing over 600. The government's perceived mishandling of the typhoon and its aftermath (i.e. not having immediately declared a state of emergency, initially declining international offers of assistance) has weakened approval ratings for the KMT and for President Ma. In an attempt to mollify the citizenry, several high-ranking officials (including the Prime Minister) resigned their positions, which brought about a cabinet shuffle last week.

PRAD's View: The KMT's fumbling of the typhoon aftermath did damage to both the party and President Ma; however, the harm is not irreversible and the proverbial rolling of heads this week will limit further loss of support. In spite of recent missteps, the KMT retains its parliamentary majority and Ma remains the most popular political leader in the country. The opposition Democratic Progressive Party which was ousted in 2008 is in a state of disarray with its leader and former president Chen Shui-bian recently being sentenced to life in prison for corruption-related charges. As such, the KMT is expected to fare well in local elections to be held in December.

Despite the KMT's relatively favourable position, the one issue that will continue to require significant attention and finessing is that of relations between mainland China and Taiwan. The KMT and Ma ran on a platform of easing tensions with China and since mid-2008 there has been unprecedented progress on this front. Regular direct flights between the two have been started, Taiwan has lifted restrictions on direct Chinese investment in several sectors and there are plans afoot to create a bilateral Economic Cooperation Framework Agreement (thus formalizing trade relations) and to allow for direct currency exchanges to facilitate cross-strait trade and investment. These developments have been lauded by business circles as Chinese and Taiwanese-based companies, as well as foreign entities active in these two markets, stand to benefit from new opportunities.

While cross-strait relations have improved since May 2008 at a pace greater than in the previous few decades, fifty years of animosity between two countries (one which continues to view the other as a renegade province) will not disappear overnight. That said, the trend is positive and it is possible that the economic rapprochement underway will be followed by some normalization of political and security relations; this however, will be a much more gradual process and is dependent on, for the moment at least, the KMT remaining in power. (P. Whelan)

Latin America and Caribbean



Jamaica: *IMF returns— austerity measures and political fallout await.*

After a fourteen-year absence the IMF has returned to evaluate Jamaica's request for a \$1.2 billion loan. The Ministry of Finance estimates the combined earnings from key sectors such as aluminum, bauxite and tourism will fall by \$1.3 billion this year, equivalent to about a third of the country's budget. Economists welcome the IMF intervention, but many Jamaicans remain suspicious of the IMF.

PRAD's View: The ruling Jamaican Labour Party (JLP) holds a slim two-seat majority in Parliament. Systematic challenges from the opposition People's National Party (PNP) have forced three by-elections

since the JLP won the 2007 election. Despite the slumping economy and rising crime rates, the JLP has retained the seats.

JLP popularity will be tested by voter response to the IMF program. Jamaicans remain highly distrustful of the IMF given experiences in the 80s and 90s when agreements with strict conditions resulted in public-sector wage freezes, high interest rates and other austerity measures. Prime Minister Bruce Golding has assured trade union leaders the IMF program will not lead to massive job cuts, but the depth of Jamaica's economic problems suggests that an already high unemployment rate will be pushed significantly higher.

The government hopes that the IMF loan will help Jamaica secure multilateral funding, avoid debt default, and boost its chances for prosperity in the long term. Even in the unlikely event of a strong economic recovery in the coming two years Jamaicans could face years of austerity to counter decades of living beyond their means. A strong voter backlash against IMF-mandated cutbacks is a distinct risk for the JLP. Elections must be held by October 2012 at the latest, but could come earlier and at an inauspicious time for the JLP. (A. Page and B. Grinfeld)



Colombia: *Uribe's third time may not be a charm*

On 2 September 2009, the Colombian Congress approved the holding of a national referendum on whether or not President Alvaro Uribe (one of the region's most popular presidents) can seek an unprecedented third term. One week later, on 9 September, President Uribe signed the referendum into law and now the Colombian Constitutional court will review the legislation and likely approve it by the end of 2009. While a third term for Uribe is unlikely to affect Colombia's positive business environment and may even allow for the country to maintain high levels of foreign investment, PRAD expects it will undoubtedly erode Colombia's democratic institutions.

PRAD's View: Under President Uribe's leadership, Colombia has pursued economic reforms which have helped to solidify the country's pro-business environment as well as implementing the Democratic Security Policy (DSP) that has greatly improved the country's security environment. The DSP has successfully cracked-down on narco-terrorist violence from groups such as the FARC and ELN guerrillas, as well as the right-wing paramilitary AUC.

Although in 2006 Congress had already introduced a constitutional change that allowed Uribe to run for a second consecutive term, President Uribe managed to obtain the support of the members of his coalition in the legislature by arguing that Colombians need to re-elect his policies (not his persona) if Colombia is to completely dismantle the illegal armies that have held it at bay since the 1960s, and therefore maintain the impressive amount of foreign investment it has received in the last years (\$USD10.5bn in 2008). Supporters of a third term for President Uribe feel that the defeat of narco-terrorism (and eventually Venezuelan *chavismo* as a negative influence for the country) is only possible if Uribe remains in power for one more term. In response to this, critics of a third term argue that most presidential candidates are likely to maintain the current administration's security policies. In fact, thanks to Uribe's DSP, there exists now a national consensus under which security issues have become a priority and a political obligation for anyone aspiring to govern Colombia. But also, one should not forget that for decades Colombians have associated leftist movements with the FARC/ELN and that therefore chances of parties from outside the governing right-wing coalition winning the next Presidential Election are close to none.

Paradoxically, Uribe's candidacy also faces many critics who have actively supported the government's policies since 2002, but that now feel that by desperately seeking re-election Uribe is starting to resemble his socialist neighbours. That being said, these increasing number of Colombians also believe that now that the country hopes for the Free Trade Agreements it signed separately with Canada and the U.S. to eventually be ratified by the legislatures of both countries, the President's ambition for re-election may

complicate their passage into law, given the Uribe administration's poor human rights record and the negative effects that its re-election could have over the country's democratic institutions. (J. Rave)

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