

Inter-American Dialogue

LATIN AMERICA ADVISOR

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Featured Q&A With Our Board of Advisors

Q On Sunday, Ricardo Lagos became the first Chilean head of state in decades to make an official visit to Bolivia when he attended the inauguration of Bolivian President Evo Morales, and both leaders said they were committed to resolving a conflict over landlocked Bolivia's demands for the return of a swath of Pacific coastline seized by Chile during a 19th century war. Do you see progress on the issue of Bolivian maritime access under the new governments of Morales and Chile's incoming president, Michelle Bachelet? What changes, if any, do you see in Chile's relations with Peru?

should anticipate that President-elect Michelle Bachelet will be smarter, and more proactive and assertive in addressing regional matters than her predecessor."

A **Guest Comment: Ivan Rebolledo:** "President Lagos' state visit to Bolivia, the first one by a Chilean president in over 51 years, was certainly unprecedented considering that his recent relationship with former Bolivian President Carlos Mesa was far from cordial. The primary sparring points between Bolivia and Chile are: access to a Pacific coast; free access for Bolivian export

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A **Guest Comment: Roberto Toso:** "It is ironic that during his last days as president of Chile Ricardo Lagos is finally showing interest in addressing relationship issues with Chile's neighbors. His foreign policy was notoriously void of regional focus and essentially ineffective toward Bolivia, Peru, and Argentina. At the same time, his participation during the Morales inauguration gave the impression of a new, pragmatic, and low-key approach by both countries in addressing matters affecting Bolivia's landlocked situation and the interest of Chile in securing a vital role in the regional energy landscape. The question arises whether Lagos went to Bolivia as just a 'lame duck' president or as the messenger of a new Chilean foreign policy strategy toward its neighbors. If the second is the case, then we

PHOTO OF THE DAY



Former Colombian President and Liberal Party leader Cesar Gaviria demanded Monday that the government bring forth witnesses behind allegations the Party's candidate in the April presidential election sought to conspire with FARC rebels. See story, page 2.

Photo: Advisor file photo.

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NEWS BRIEFS

Procter & Gamble Agrees to Price Freeze in Argentina

Procter & Gamble, the US' largest consumer goods maker, reached an agreement with the Argentine government to freeze price increases for 31 products for one year. The agreement, which covers shampoo, soaps, creams, and toothpaste, is part of the government's strategy to keep a lid on inflation, which at 12.3 percent last year was the second-highest rate in 13 years. Analysts, however, say such agreements will only hold down inflation in the short term and that the government must reduce spending.

Source: *Bloomberg News*.

Santander Unit Buys Puerto Rican Consumer Finance Firm

Puerto Rico's **Santander BanCorp**, a financial holding company controlled by Spain's **Banco Santander Central Hispano**, said Monday it agreed to buy the Puerto Rico business of consumer finance firm **Island Finance** from **Wells Fargo & Co.** for about \$734.5 million cash. The deal is expected to close in the first quarter of this year. Island Finance had about \$627 million in loan receivables in Puerto Rico at the end of last year.

Source: *Reuters*.

Yahoo! Opens Internet Research Center in Chile

US Internet search engine **Yahoo!** on Monday announced the opening of a research center in Santiago, Chile. Yahoo! said the center, and another opening in Barcelona, Spain, would be led by "renowned Web retrieval and mining expert" Ricardo Baeza-Yates. The centers will "focus on topics related to Web search and information extraction," the Sunnyvale, CA-based Yahoo! said.

Source: *company statement*.

Political News**Liberal Party Demands Uribe Provide Witnesses Against Senator**

Colombia's opposition Liberal Party on Monday demanded that the government of President Alvaro Uribe bring forth witnesses behind allegations the Party's candidate in the April presidential election, Senator Rafael Pardo, sought to conspire with FARC rebels to undermine Uribe's re-election bid, local daily *El Tiempo* reported. Liberal Party leader and ex-Colombian President Cesar Gaviria insisted the government make the identity of the witnesses known "immediately" to Colombia's attorney general's office so that investigators can examine the evidence against Pardo and allow the senator to defend himself against "the slanderous charges." The political storm erupted last Wednesday when the Uribe administration said it had information that Pardo

the apology as meaningless, since Uribe only maintained that the government could not make evidence available to support the charges against Pardo, rather than saying the allegations were false. Uribe, popular for his no-nonsense approach to dealing with Colombia's rebel and paramilitary groups, and his campaign to reduce violence in the Andean country, is widely expected to win re-election in April. Popular support for Pardo, a former defense minister and prominent ally of Uribe known for his opposition to the FARC, has been in the single digits, according to Reuters. Pardo has been a critic of the Uribe government's efforts to make peace with paramilitary groups. The accusations against Pardo followed allegations that pro-government congressmen had links to paramilitary groups. Last Tuesday, two pro-government parties banned five of their own representatives from running for re-election in March due to longstanding suspicions of the legislators' ties to paramilitaries.

Pardo and the Liberal Party have dismissed Uribe's apology as meaningless, since Uribe only maintained that the government could not make evidence available to support the charges against Pardo, rather than saying the allegations were false.

had contacted the FARC to propose an unspecified "joint political action" against Uribe. Colombia's top peace negotiator with the country's leftist rebels and right-



(L-R) Pardo and Gaviria

Photo: *Liberal Party*.

wing paramilitary groups, Luis Carlos Restrepo, said he had informed Uribe about the alleged plot, of which he learned from "a person charged with maintaining contact with the FARC." When pushed for evidence to back up the claim, Restrepo refused, saying such a disclosure could hurt the peace process, and Uribe was forced to retract the charges and issue a public apology to Pardo on Sunday, while Restrepo has offered to resign. Pardo and the Liberal Party, however, have dismissed

Bolivia's Morales Swears in Cabinet, Demands "Zero Corruption"

Bolivian president Evo Morales on Monday swore in a cabinet of Indians, socialists, and women to help him lead the Andean nation, Reuters reported. In his first official act since his inauguration, Morales asked his cabinet of 12 men and four women, many of whom are active in grassroots movements, to focus on eliminating corruption and adopting a new leftist economic model. "I want zero corruption, zero bureaucracy, no more 'come back tomorrow.' People are tired of this," Morales was quoted as telling his team of ministers. "You must comply with the people's mandate, to democratically change the neo-liberal economic model and resolve structural and social problems." Morales chose Aymara Indian intellectual

David Choquehuanca as his foreign minister and Walter Villarroel, who comes from a mining cooperative, as his mining minister. Abel Mamani, a grassroots leader from El Alto, a mostly poor satellite city of the capital, La Paz, will be in charge of water services. Morales appointed energy analyst and journalist Andres Soliz Rada to oversee the hydrocarbon industry, which is expected to undergo a major restructuring as Bolivia renegotiates contracts with foreign oil companies and Morales works to fulfill pledges to exercise greater control over the sector, although he has promised not to expropriate foreign companies' assets.

New UN General in Haiti Vows Security for Elections

Brazilian General Jose Elito Carvalho de Siqueira took command on Monday of United Nations peacekeepers in Haiti, vowing to make the nation secure for elections on February 7, the Associated Press reported. De Siqueira, who replaces Brazilian Lt. Gen. Urano Teixeira da Matta Bacellar following Bacellar's January 7 suicide, said that with the help of Haiti's 9 million people, the 9,000-member UN force will be able to provide security for the election and beyond. "We are here to help you and we know how to help you, but we are not enough. We must have a lot of support from other parts of the country—political, economic, and social," he said. The UN force was sent to help restore order after a bloody revolt forced then-President Jean-Bertrand Aristide from power in February 2004. In recent months, peacekeepers have faced a wave of gang violence and kidnappings, especially in the capital, Port-au-Prince. Before he became commander of the UN force, De Siqueira was based in Salvador, a city in northeastern Brazil. United Nations troops are tasked with maintaining security in the slums as officials prepare for elections, which have been delayed several times due to logistical and security concerns. Haiti's interim government said voter ID cards have been distributed to 85 percent of the 3.5 million people registered to vote. Thirty-five candidates are running for president and hundreds more for 129 legislative seats.

Featured Q&A

Continued from page 1

products in Iquique, Chile; de-mining of the border; and the natural gas ring. However, the most important issue is sovereign access to the Pacific, which has been the main point of diplomatic contention since the beginning of the last century. Bolivians see their plight as the result of an unfair war of aggression. The Chileans revert back to a 1904 treaty signed between Bolivia, Chile, and Peru that if modified would be in violation of international law. However, circumstances are now evolving that might contribute to a resolution to this ongoing problem. Over the past few years, we have seen a more aggressive agenda on the part of Bolivia in bringing this matter before the international community. This was especially evident during the Carlos Mesa presidency—with the promotion of the 'Libro Azul.' Chile's acute need for energy resources and Bolivia's abundant supply of natural gas has given

Bolivia a much stronger negotiating position. The fact that Bolivia and Chile have new presidents is probably the most important factor. Chilean President-elect Michele Bachelet, who benefits from high approval ratings, as does her mentor, Lagos, has indicated that she is very willing to enter into in-depth talks with Bolivia over the sea access issue. According to recent Chilean opinion polls, it seems she will also have the support of her citizenry in this regard. It seems that both Bachelet and Morales will be the presidents that finally resolve this bilateral dilemma. President Morales is scheduled to travel to Bachelet's inauguration ceremony—something she should have done."

A Guest Comment: Steve Johnson: "With its cordial acknowledgement of Morales' victory, Chile takes the first

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Company News

Mexico's Grupo Iusacell Announces Debt Restructuring Agreement

Mexican mobile company **Grupo Iusacell** said Monday that it and its main operating subsidiary had reached a long-awaited agreement with creditors to restructure the companies' combined \$766 million in defaulted debt. In a press release, Grupo Iusacell said a majority of creditors had agreed "in principle" to the exchange, which would lower the companies' debt load to \$568 million, while at the same time extending repayment for as long as seven years. Grupo Iusacell also said creditors had agreed to cancel some \$194 million in past due interest on the defaulted debt. Local shares in Grupo Iusacell, which delisted its American Depository Receipts last year, soared 22.04 percent on Monday to close at 33.56 pesos, according to Reuters. The mobile operator, which was bought by Mexican tycoon Ricardo Salinas in 2003, has been in negotiations

for several months with creditors, some of whom have taken the company to court to recover their investments. Last May, **The Bank of New York** demanded accelerated repayment of the principle and interest on a \$350 million bond on which the company defaulted in 2003. Grupo Iusacell, which is focused on corporate customers and higher-income subscribers, is Mexico's fourth-largest mobile operator, and was expected to end 2005 with more than 2 million subscribers. According to analysts, Grupo Iusacell's huge debt load was holding up the company's expansion plans, especially after it was awarded additional spectrum by Mexican regulatory authorities last April, giving the company nationwide coverage. [Editor's note: see related Q&A in the May 20, 2005 issue of the weekly *Latin America Telecom Advisor*.] For the first nine months of 2005, Grupo Iusacell posted a net loss of 835 million pesos (\$US 79 million), an improvement from the 1.65 billion-peso loss it suffered during the same period of 2004. Revenues rose 25 percent year-on-year to 4.31 billion pesos.

Featured Q&A*Continued from page 3*

step toward a rapprochement with Bolivia—gaining moral high ground. There is probably nothing more to it than public relations, but PR may be what it takes to reopen a dialogue with Bolivia about exporting natural gas through a Chilean port. Despite claims by Bolivia's vice president Alvaro Garcia Linera that no pipeline will ever ship Bolivian gas through Chile while Evo Morales is president, better relations could lay the foundation for an eventual return to the idea. If communist China was to become the ultimate consumer and an investor in construction, exports through Chile might be ideologically palatable to Morales. For now, a conduit through Peru or from Venezuela to Argentina through Bolivia, as Venezuelan President Hugo Chavez has proposed, may be too costly or lengthy to be practical. Meanwhile, [Bolivia's] relations with Chile can only get better."

A Guest Comment: Peter Siavelis: "The weighty symbolism of Ricardo Lagos' presence at the inauguration of Evo Morales fades in light of the potential for real change in Bolivian-Chilean relations during Michelle Bachelet's presidency. Bachelet has pledged to work toward the re-establishment of full diplomatic relations with Bolivia. Nonetheless, although a Socialist, Bachelet is cut from a different leftist cloth than Morales, affecting how each is likely to view the major stumbling blocks to improving relations and resolving the longstanding maritime access issue. Bachelet is much more sympathetic to Washington's vision of the Hemisphere, supports the FTAA, and sees trade and integration as the keys to development for Chile's poorer neighbors. Morales, on the other hand, disparages Washington's free trade agenda and is intensely critical of Santiago's comfortable relations with the United States. As much a populist as a leftist, Morales is likely to rely on already strong anti-Chilean sentiment to cultivate support, especially in the face of challenges to his authority or popularity. This is sure to get in the way of a resolution to Bolivia's

maritime claims, especially considering how the issue taps into nationalist sentiments in both countries. Similarly, across the border in Peru, while both frontrunners for the presidency, populist Ollanta Humala and conservative Lourdes Flores Nano, have referred to the importance of limiting Chilean economic influence in the country, a Flores victory will more likely signal an improvement in Chilean-Peruvian relations, while a Humala presidency will make for little change, or for deterioration, in bilateral relations for similar reasons."

A Guest Comment: Manuel Rocha: "I believe that the governments of Bolivia and Chile under their respective new presidents have for the first time the political conditions to reach that historic agreement that has been impossible to reach by all other combinations before. Chile needs energy security and Bolivia needs to have its maritime access restored under any acceptable formula. I firmly believe that Evo Morales and Michelle Bachelet have every intention of working together to make this a reality. The groundwork for this to happen is already well under way."

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