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Advisor ANALYSIS

Q

Bolivian President Carlos Mesa took the opportunity of last week's Special Summit of the Americas to repeat historic demands that Chile grant his landlocked country sovereign access to the Pacific Ocean. With regional pressure to resolve the issue growing, especially in light of the threat Bolivia's continuing social tensions pose to its neighbors, is a settlement of the dispute finally on the horizon?

A

Board Commentary: Beatrice Rangel: "This topic has made world headlines ever since President Chavez of Venezuela decided that the best vacation destination would be a Bolivian beach. But I think that this statement has only contributed to the trivialization of a problem that is key to political stability in the Andean region. While Bolivian aspirations to see its landlocked days end are a century old, it was not part of the political agenda for indigenous groups until very recently. As President Sanchez de Lozada's mandate was brought to an end through street riots demanding (among other things) the resolution of this matter, so too will the Mesa administration be held at ransom over this issue. Latin American neighbors are aware of this and have recently focused on the problem. The resolution, however, could only materialize if there were a Latin American consensus on a practical solution that would involve both Chile and Peru. This formula is by no means ready and agreed upon. Thus we can expect either 1) the radical elements in the Bolivian indigenous movements to press for this matter in order to cut President Mesa's mandate short and take power, or 2) we can expect a convergence of wills in Latin America to come up with the practical solution. The first outcome seems more likely than the second."

“
...Bolivia's turmoil may lead to an
irredentist, *indigenista* government...”

-- C. Mateo Paz-Soldan

Guest Commentary: Ivan C. Rebolledo: "The issue of Bolivia's sovereign access to the Pacific has finally garnered the international attention it deserves, which in turn greatly bolsters President Carlos Mesa's popularity. At the recent Ibero-American Summit, held this past November in Santa Cruz, several participants, including UN Secretary General Kofi Annan, made reference to this historic problem and urged involvement of the international community. In addition, former US President Jimmy

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Economic News

Brazil Surprises Markets by Holding Interest Rates Steady

Brazil's Central Bank monetary policy committee (Copom) held a key interest rate steady yesterday, in an 8-1 decision that countered analyst forecasts and surprised investors. The benchmark Selic rate will remain at 16.5 percent, with no bias. Analysts had expected Copom to cut rates by at least a half a point. The Copom's decision was "due to uncertainties related to the implementation of monetary policy and considering that the 10 percentage point cut to (the) Selic over the past few months has not yet had a full impact on the economy," according to a Copom statement published by Brazil's *Agencia Estado*. Worries over inflation, which has been on the rise in recent months, is expected to be a key reason for the committee's decision. Consumer prices in Sao Paulo rose 0.7 percent between mid-December and mid-January, up from 0.4 percent the previous month, Bloomberg News reported. Despite the surprise Copom decision, analysts are sticking to their interest rate estimates for the year. "Although we are not yet inclined to change our year-end forecast for the Selic rate (14 percent), we are reassessing the likely path for policy rates for the first half of this year," **JP Morgan** said in a research note today.

Chile Plans \$500 Million Debt Sale Today

Chilean Finance Minister Nicolas Eyzaguirre announced Wednesday that Latin America's most economically stable country would sell at least \$500 million in global, four-year floating rate notes this week, Reuters reported. "We hope once again to have record low interest rates thanks to the our country's risk classification," he told the press. "It will be between \$500 (million) and \$700 (million). We always reserve a certain margin depending on market conditions." According to market sources, the sale would come Thursday through **JP Morgan** and **Citigroup Global Markets**. Chile apparently needs to borrow \$1.5 billion for the year, half of which normally comes through external borrowing. Earlier this month Chile said it would sell up to \$700 million in internationally marketed

bonds in 2004. Today's debt issue would be Chile's first that includes collective action clauses, allowing changes to bond terms without 100 percent approval from bondholders. **Standard & Poor's** has lifted Chile's long-term foreign sovereign credit rating from 'A-' to 'A.' High prices in copper recently prompted the Chilean central bank to forecast faster growth and a higher trade surplus for 2004.

Mexico To Sell £300 Million in Bonds

Mexico will sell between £300 million and £500 million of bonds, yielding a premium of 190 to 200 basis points over benchmark UK gilts, Reuters reported Wednesday. According to fund managers, the issue's lead managers will be **Barclays Capital** and **HSBC**. Two weeks ago, Mexico sold a \$1 billion, five-year floating rate international bond that doubled in size due to strong investor demand. Mexico sits at the lower end of the investment grade ratings scale.

Political News

US Senate Leaders Announce New Immigration Bill

Two important US senators on Wednesday announced a bipartisan immigration bill that would give temporary US work visas to a limited number of immigrant workers, and facilitate the legalization and permanent residency of illegal workers already in the US, Reuters reported. Senate Democratic Leader Tom Daschle of South Dakota and Nebraska Republican Sen. Chuck Hagel are sponsoring the bill, which they said would not be an amnesty, but a earned path to residency. "We want them to become stakeholders," Daschle told reporters. "That doesn't come free, that doesn't come without a great deal of effort." In addition to paying a fine, applicants for permanent status would have to have lived in the US for five years before the legislation's introduction and have worked for four. They would also have to pass security



Sen. Tom Daschle
Photo: US Senate

checks, pay US taxes, and demonstrate an understanding of English. "These are earned rights, these are earned green cards and status, and hopefully for many, citizenship," Hagel said. President Bush's proposed immigration law reform, which he reiterated during Tuesday's State of the Union address, has been criticized both as an amnesty and as preventing permanent residency. Congressional aides have said immigration reform is unlikely before the November elections.

Company News

Brazilian Tax Police Launch Parmalat Probe

Brazil's federal police and tax authorities announced Wednesday they would probe scandal-ridden Italian food company **Parmalat's** dealings in the country on news that the company has shuffled funds between its Brazilian units and subsidiaries, Reuters reported. The separate investigations seek to clarify whether Parmalat's transactions were legal. A month ago, Parmalat revealed a four-billion euro accounting hole in a Cayman Islands unit and sought bankruptcy protection. Brazilian police have yet to choose which office will begin the investigation. **Parmalat Brasil Industria de Alimentos** last month suspended payments to suppliers, which prompted an injunction delivered on Friday that named an auditors committee to oversee Parmalat's transactions and blocks the sale of the company's assets. Parmalat's lawyer, Thomas Felsberg, on Wednesday said he would appeal the civil ruling, and try to convince its initiator, **Banco Sumitomo Mitsui Brasileiro**, to join an existing creditor's committee. "If every creditor puts his own (audit) committee inside the company we're not going to be able to get anything done," said Felsberg. Separately, police in Milan on Wednesday searched offices belonging to **Morgan Stanley** and fund manager **Nextra** as part of the continuing Italian probe.

THE DIALOGUE CONTINUES

Q US President George W. Bush met with his Argentine counterpart President Nestor Kirchner at the Special Summit last week amid growing policy differences, including Argentina's warming relations with Cuba and its failure to negotiate a debt restructuring with creditors. How would you describe current US-Argentine relations and in what direction do you see relations heading?

A **Guest Commentary: Jose Octavio Bordon:** "The present relationship between Argentina and the United States could be described as very good and constructive. Both countries share common values such as the defense of democracy and the promotion of human rights, and common interests such as the political and economic stability of the region. Argentina is also a firm ally in the fight against terrorism. Of course, as in any mature friendship, as the one Argentina wishes to have with the United States, there can exist different points of view on certain issues, that should be discussed in a frank and open manner. But this does not affect the rest of the relationship, which mostly follows a cordial and positive path. Likewise, the relation between Argentina and the United States is framed within a foreign policy in which open regionalism -- starting with Mercosur --, multilateralism, and the diversification of our links with the rest of the world are fundamental leading principles. Within this context, Argentina holds diplomatic relations with all countries of the continent and aspires to see democracy and human rights consolidated in all countries of the Hemisphere. Argentina also aspires to a greater regional and global commercial integration in which trade is not only free but also equitable, and is rid of distortions -- like the ones in the agricultural sector -- that hurt developing countries, deepening the economic asymmetries already existing. Argentina values the support and understanding lent by the United States in our relation with the international financial organizations, within the preservation and consolidation of growth of our economy, a requisite condition in any rescheduling of our foreign financial commitments. To sum up, our country attaches particular importance to the relation with the United States, and President Kirchner's administration hopes to continue developing this relation and cooperation in areas of our common interest, for the benefit of both peoples and all the Hemisphere."

Editor's note: the above is a continuation of a Q&A that first appeared in the January 21, 2004 issue of the Latin America Advisor.

Mexican Bottler Arca Expects Increase in 2003, 2004 Sales

Embotelladoras Arca of Mexico shared on Wednesday its expectations of a 2 percent rise in 2003 sales volume due to leaner operation costs and new product placement, Reuters reported. The fifth-largest bottler of **Coca-Cola** products in the world

expects 2.5 to 3.5 percent growth in sales volumes this year. Arca anticipated \$60 million in investments for this year and hoped soft-drink consumption would rise on an economic recovery. Arca estimates total sales in 2004 to be between 417 and 419 million unit cases, up from 410.3 million in 2003. Mexico is the world's largest per-capita Coca-Cola consumer.

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Carter made the same call in his December visit to La Paz. Bolivia's landlocked status has had a definite effect on the country's underdevelopment. Its transport costs are among the highest in the world, reflecting Bolivia's physical terrain and the burdens of trade routes that necessarily cross geopolitical boundaries and depend on foreign-owned ports. As with other poor, landlocked countries, Bolivia's elevated transport costs discourage foreign direct investments and create political vulnerability. Traditionally, investors have focused typically on high value commodities such as oil, silver, tin, natural gas, and gold. In addition, the country's economic isolation, lack of capital markets, and modest project finance funds has kept away investors in manufacturing and services. The fact that the international community is now focusing on Bolivia's landlocked status will have a significant impact on the resolution of this historic problem."

Guest Commentary: C. Mateo Paz-Soldan: "Etched in Bolivia's national consciousness is the idea that its 120-year landlocked status is a major factor in its stunted economic development. The lack of finality to this dispute and an ongoing sense of injured national pride, added to last year's events surrounding the lucrative LNG export plan through a port in former Bolivian territory -- with Chile ostensibly accruing many of the benefits -- has helped to fuel the rise of Evo Morales and his *indigenista* base. It is conceivable that Bolivia's turmoil may lead to an irredentist, *indigenista* government that is unable, or unwilling, to control drug trafficking, narcoguerrillas, and refugee flows, and in the process destabilizes the entire region. With these prospects in mind, a Chilean 'gesture' under multilateral auspices, involving a sovereign Bolivian coastal enclave/port along with a guaranteed access or easement for road, rail, and other connections (gasoduct), could greatly defuse Bolivia's strife and bring closure to one of South America's thorniest disputes. Although controls to restrict the possible entry of narcotics and undocumented migrants into its territory would be necessary, Chile would have much to gain from the stability, trade, and investment opportunities that would likely arise from a settlement along its northeastern border, as well as from the flow of Bolivia's untapped wealth to the coast. It is important to note that concessions of disputed territory made by Chile to Peru in 1929, and more recently by Peru to Ecuador in 1998, brought closure to historic grievances. Such finality to this longstanding dispute would be a key multilateral objective, and as witnessed elsewhere, is achievable."

Editor's note: Early yesterday morning Bolivia's Congress called for creation of a congressional commission to work with the President Mesa toward regaining disputed territory from Chile.

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