

Inter-American Dialogue

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|---|--|
| Bernard Aronson
Managing Partner,
ACON Investments LLC | Peter Hakim
President,
Inter-American
Dialogue |
| Diego Arria
Director,
Columbus Group | Donna Hrinak
Senior Director,
Kissinger McLarty
Associates |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| Joyce Chang
Global Head of
Emerging Markets
Research, J.P. Morgan
Chase & Co. | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Adrian Cruz
Founder and Senior
Partner,
Crisis Simulations
International, LLC | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | Juan Felipe Munoz
President,
Hemispheric Partners |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-PackardCo. | Thomas F. McLarty III
President,
Kissinger McLarty
Associates |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Beatrice Rangel
President & CEO,
AMLA Consulting |
| Jonathon Flott
Economist for Latin
America, Africa and
the Middle East,
General Motors | José Antonio Ríos
International President,
Global Crossing |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | Andrés Rozental
President,
Mexican Council on
Foreign Relations |
| Michael Gavin
Head of Latin
America Econ.
Research, UBS | Everett Santos
CEO, Emerging
Markets
Partnership |
| George W. Grayson
Professor of Govt.,
The College of
William & Mary | Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings |
| | Tony Smith
Senior Counsel,
Schmeltzer, Aptaker
& Shepard |

Featured Q&A With Our Board of Advisors

Q In an important conciliatory gesture, Bolivian President Evo Morales attended the inauguration Saturday of Chilean President Michelle Bachelet, and met with her briefly the day before, raising hopes the two countries could take steps toward a resolution of their longstanding conflict over Bolivia's demand for the return of coastal territory taken by Chile during a 19th century war. What are the chances for a deal? Can the two leaders overcome domestic resistance to the concessions that would be needed to strike an agreement?

because advances in relations with Chile depend on his success. I do not see it as easy, but not impossible either ..."

A **Guest Comment: Ivan Rebolledo:** "President Lagos' state visit to Bolivia in late January, the first one by a Chilean president in over 51 years, was certainly unprecedented. President Evo Morales' visit to Santiago last weekend was just as newsworthy and promising. The primary historical sparring points between Bolivia and Chile are: access to the Pacific coast; free access for Bolivian export products in Iquique, Chile;

Continued on page 4

A **Guest Comment: Carlos Huneeus:** "President Evo Morales' gestures toward Chile—inviting President Lagos to his inauguration and participating in Lagos' handover of the presidency Bachelet—are important. Morales received demonstrations of sympathy in sectors of the citizenry. However, excessive expectations should not be awoken because of the fact that after many years Bolivia has a president elected by a broad majority of voters, which gives him great legitimacy and authority to confront enormous domestic challenges. His principal task is for his government to resolve the people's urgent problems and affirm democracy. And he should do it independently of the claims against Chile, as did his predecessors because of the pressure of domestic instability. We will see how he faces this broad and complex agenda,

PHOTO OF THE DAY



An Indian leader vowed to continue anti-government protests in Ecuador, while reports surfaced that the protests were beginning to lose steam. See related story on page 2.

Photo: Conaie.

Inside This Issue

FEATURED Q&A: What Are the Chances for a Deal Between Bolivia and Chile?.....1

Alckmin Calls Lula's Economic Model "Wrong"2

Protests in Ecuador Lose Steam Despite Vows to Continue.....2

News Briefs: Noboa Released, Chile Holds Rate Steady, Mexican Industrial Output Up2

Banco de Bogota Acquires Megabanco for \$357.9 Million.....3

Capitol Hill Watch: A Weekly Look at US Congressional Activity on Latin America3

NEWS BRIEFS

Court Frees Ex-Pres. Noboa from House Arrest, Reduces Charges

Ecuador's Supreme Court released former President Gustavo Noboa from house arrest on Thursday after reducing charges against him for allegedly mishandling the country's foreign debt negotiations during his three-year term. Supreme Court Chief Judge Jaime Velasco ruled that Noboa should be charged with being an "accessory after the fact" instead of "directly responsible" for poorly handling debt negotiations, which allegedly cost the country \$9 billion. Noboa left office January 2003.

Source: Associated Press.

Chile Central Bank Holds Key Interest Rate at 4.75 Percent

Chile's Central Bank on Thursday maintained its key interest rate at 4.75 percent—in line with market expectations—saying that the outlook for inflation was in the middle of its 2-4 percent target range. The Bank said that future rate hikes would still be necessary in order to bring annual inflation down to the middle of its target range, or about 3 percent. Last month, the Bank hiked its key interest rate by a quarter-percentage point.

Source: Reuters.

Mexican Industrial Output Rose 6 Percent in January

Mexican industrial production rose 6 percent in January compared to the same month of 2005, the strongest pace in 15 months. Year-on-year growth in January was led by construction (6.6 percent), followed by manufacturing (6.3 percent), mining (4.2 percent), and electricity, gas, and water (2.4 percent).

Source: INEGI, Bloomberg News.

Political News**Alckmin Calls Lula's Economic Model "Wrong"**

The presidential candidate from Brazil's main opposition PSDB party, Sao Paulo state Governor Geraldo Alckmin, said Thursday that the country's "economic model is wrong" and that if elected in October he would push for lower interest rates and better quality spending, Reuters reported. Alckmin, who is seen as having close ties to business groups, said that real interest rates in Brazil, at 12 percent, are too high. "Monetary policy is too conservative, there is no reason



Alckmin
Photo: Sao Paulo state government.

announced as the PSDB's candidate on Tuesday after a drawn-out internal party debate, faces an uphill battle against Lula, who has a large lead in polls. However, analysts say a near-zero negative rating for Alckmin, who is not well known outside of Sao Paulo state, puts him in a good position to catch up.

Protests in Ecuador Lose Steam Despite Vows to Continue

The leader of Indian protests in Ecuador against free trade talks with the United States on Thursday pledged to continue with anti-government demonstrations, despite reports that the protests were beginning to fizzle. "We will continue to mobilize and radicalize the protests in favor of life and against the free-trade agreement," Luis Macas, head of the

“Fiscal policy is bad and we need to improve the quality of spending.”

— Geraldo Alckmin

to have real interest rates of 12 percent." Business leaders have long complained that interest rates in Brazil, among the highest in the world, should come down as a means of stimulating greater economic activity. The Brazilian Central Bank, which last week lowered its benchmark Selic interest rate by 75 basis points to 16.5 percent as part of a current easing cycle, has said that high interest rates are necessary to bring inflation under control. In the minutes from last week's meeting, released yesterday, the Central Bank signaled it plans to further reduce rates amid expectations it would beat its inflation targets of 4.5 percent for this year and next, according to Reuters. Alckmin also said Brazil's currency, the real, is overvalued, hurting exporters. Yesterday, the real rose 0.8 percent to 2.0980 per dollar in mid-day trading, its highest level in five years, according to Bloomberg News. Alckmin also criticized incumbent President Luiz Inacio Lula da Silva's fiscal policy. "Fiscal policy is bad and we need to improve the quality of spending," Alckmin was quoted as saying by Reuters. Alckmin, who was officially

Confederation of Indigenous Nationalities of Ecuador, Conaie, said in a statement, according to the Associated Press. "There will be neither dialogue nor contact with the government." However, according to local daily *El Comercio*, some protesters began to return to their communities after the government promised millions of dollars in social spending and public works projects. The protests, which included road blockades that were preventing deliveries of food and other goods, had threatened to plunge the country into turmoil and created one of the biggest challenges to the 11 month-old government of President Alfredo Palacio. On Wednesday, Palacio accused the protesters of trying to topple him and said he would not give in to their demands that he end free trade talks with the US. The protesting Indians, who provide much of the Andean nation's rural labor, say the trade deal would put them at a disadvantage with US farmers, who they fear will flood Ecuador with cheap imports and devastate the country's own agriculture sector. Talks between the US and Ecuador remain deadlocked,

mainly over agriculture issues, and Ecuadorian President Alfredo Palacio has said he will not sign any agreement that is unfair to Ecuadorians. Government officials have promised to meet with Indian leaders this week to discuss the impact of the proposed trade agreement with the US before negotiations resume in Washington next Thursday.

Company News

Banco de Bogota Acquires Megabanco for \$357.9 Million

Colombian financial holding company **Grupo Aval** announced Thursday that it and one of its banking units, **Banco de Bogota**, purchased 95 percent of the shares in another Colombian bank, **Megabanco**, after winning an auction. The share purchase came after a consortium led by Banco de Bogota—Colombia's second biggest bank in terms of assets, submitted a winning 808 billion-

Banco de Bogota, Colombia's second-biggest bank, submitted a winning bid of \$357.9 million for Megabanco

peso (\$US 357.9 million) bid for Megabanco in the auction, held yesterday, beating rival **Bancolombia's** 733 billion-peso bid. In a press release, Grupo Aval said the acquisition was part of a strategy to step up its presence in the credit market for low-income borrowers. Megabanco serves mostly low- and medium-income retail clients through a network of 187 offices, according to Reuters. "For Grupo Aval and Banco de Bogota this acquisition will allow access to a strategic market and network of complementary offices, that will be strengthened by the products and services that our organization offers," Grupo Aval said it would borrow about \$300 million from **Citibank** to help finance the purchase, according to Reuters.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Senators Concerned About Growing Chinese Military Aid to Latin America

Members of the Senate Armed Services Committee on Tuesday expressed alarm about reports of growing Chinese military aid to Latin America. "I think this is one of the most serious problems we face," said Senator Hillary Clinton (D-NY) after hearing testimony by General Bantz Craddock, head of the US Southern Command. Craddock, who oversees all US military operations in Latin America, told the Committee that China is training increasing numbers of military personnel, while providing growing amounts of nonlethal military equipment. The increase in Chinese military aid has come amid a sharp decline in US military involvement in the region as the result of a three-year-old law that mandates the suspension of US military training in countries that refuse to exempt US citizens abroad from the jurisdiction of the International Criminal Court (ICC). Nations that join the ICC can evade US sanctions by signing an agreement with the US that provides Americans immunity from ICC prosecution. However, 12 Latin American countries have declined, and are now subject to sanctions. Craddock said this gap in US military presence has created an opportunity for China to exercise influence. Sen. John McCain (R-AZ) said the US is paying "a very heavy price" in the countries where the programs have been cut—including Brazil, Peru, Mexico, Bolivia—and proposed looking into an amendment easing the sanctions in a \$91 billion emergency supplemental bill now being considered. Committee chairman John Warner (R-VA) and the ranking Democrat, Carl Levin (MI) said they would jointly contact the State Department and the Department of Defense to see how the sanctions could be rolled back. Secretary of State Condoleezza Rice has said the sanctions against Latin American nations are being looked at on a case-by-case basis for a possible waiver.

Source: The Miami Herald, Oxford Analytica.

House Approves Supplemental Counterdrug Funding for Colombia

The House of Representatives on Thursday approved \$26.3 million in supplemental counternarcotics funding for Colombia, an amendment proposed by Rep. Dan Burton (R-IN). The funding, approved as part of an emergency congressional measure to supplement appropriations for defense, national security and hurricane recovery, will pay for three new DC-3 fixed-wing aircraft to serve as Marine Patrol Aircraft (MPA) for Colombian Navy drug interdiction efforts. "The aircraft will help the Colombian Navy locate and stop illegal narcotics shipments both onshore and immediately off the Colombian shoreline, thus making overall interdiction efforts more effective," Burton, the chairman of the House Subcommittee on the Western Hemisphere, said in a statement. Over 23 Colombian aircraft have been lost in counternarcotics eradication and interdiction efforts since 2000. The measure seeks to overcome the loss of US and allied drug interdiction assets in recent years, as well as prevent drugs from reaching US shores. "It has been reported that if drug traffickers make it to the coasts of Colombia, they have a 65 percent chance of getting their shipments into the United States," Burton said. "In our ongoing efforts to protect our homeland, it is essential that we cut off this toxic pipeline before these drugs make it onto our streets and communities."

Source: Office of Rep. Dan Burton.

Featured Q&A*Continued from page 1*

de-mining of the border; and the natural gas ring. 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 a 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, due to the election of new presidents in both countries, circumstances are now evolving that might contribute to a resolution of this ongoing problem. Both are anxious to resolve this historic problem and have agreed to form special commissions to focus on this task. Granted, it will be difficult for Chilean President Michelle Bachelet to justify the return or forfeiture of Chilean sovereign territory to Bolivia, but if there is anyone that can do this it might be her. According to recent Chilean opinion polls, she has the growing support of her citizenry in this regard. Ironically, Evo Morales helped depose President Gonzalo Sanchez de Lozada in 2003 for wanting to export natural gas through Chile. Chile's current, acute need for energy resources and Bolivia's abundant supply of natural gas also gives Bolivia a much stronger negotiating position."

A Guest Comment: Patricio Navia: "There are a number of hurdles still on the way to a successful resolution of the Bolivian demand to have sovereign access to the Pacific Ocean. But Evo Morales' visit is a giant step in the right direction. Morales is the first Bolivian president to attend a presidential inauguration in Chile since democracy was restored. The restoration of diplomatic relations is likely to happen under Bachelet's and Morales' terms. Yet, most important, Morales has won the empathy and understanding of many Chileans. Historically, Chileans have believed that the Bolivian oligarchy blames Chile for all its own mistakes and shortcomings. With Morales, the Chilean people have found a friend and a

person who can be trusted. If Morales plays his cards right, a Bolivian flag will be flying over a sovereign access to the Pacific Ocean, with Chile's support, before 2010."

A Guest Comment: Manuel Rocha: "For a very long time, numerous presidents from both countries have tried to come to an agreement to settle this thorny problem that divides the two nations. The last time that there was any real hope that both countries were close to a resolution was in the seventies, when the Bolivian government was headed by General Banzer and the Chilean government was under General Pinochet. These two anticommunist figures almost pulled it off until Peru more or less vetoed the arrangement being worked out. Since then, no two respective heads of state from these two countries has been that close. I believe that this is about to change. The formidable support obtained by Evo in the presidential elections and the wide popular backing Bachelet enjoys augurs well for these two presidents to have the necessary political muscle to sell to their respective national constituencies a mutually acceptable agreement. Chile needs energy security, which Bolivia can provide by supplying natural gas. Bolivia needs to once again have access to the sea for economic and political reasons. Chile has the key that can make this dream a reality. I think the two presidents have every incentive and all the political clout to make it this time around."

Carlos Huneeus is Director of the Center for the Study of Contemporary Reality in Chile.

Ivan Rebolledo is President of the Bolivian-American Chamber of Commerce.

Patricio Navia is a Professor of Political Science at Universidad Diego Portales in Chile.

Manuel Rocha is Managing Director of the Globis Group, LLC and a former US Ambassador to Bolivia.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2006

Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Devin Finn,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director of Special Projects

Dan Erikson,
Senior Associate, US Policy

Claudio Loser,
Senior Fellow

Judith Morrison,
Executive Director, Inter-Agency Consultation
on Race in Latin America

Marifeli Pérez-Stable,
Vice President for Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

Latin America Advisor is published every business day by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher nor do they represent any consensus of belief. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.