# Latin America Advisor

The Interactive Forum for the Region's Leaders

Thursday, October 2, 2003




## Today's Top News



## Advisor ANALYSIS

**Q** **Bolivian union leaders are demanding President Gonzalo Sanchez de Lozada resign amid continued protests against his economic policies and plans to export the Andean country's wealth of natural gas. Is Sanchez de Lozada facing a repeat of the violence and political crisis that shook his government in February? What accounts for the government's inability to address social demands and quell protest?**

**A** **Guest Commentary: Ivan Rebolledo:** "President Sanchez de Lozada is confronted with an unenviable decision. Export gas through Chile, which is in Bolivia's best interests, or give into the political opposition, which has managed to turn the issue of gas exports into a time bomb. Without a doubt, Bolivia is about to confront additional protests, strikes, and blockades as the government comes closer to deciding whether Chile or Peru will be used to export Bolivia's seven trillion cubic feet of natural gas. What many union and opposition leaders do not understand (perhaps on purpose) is that the export of natural gas through Chile will quadruple Bolivia's GDP by 2006, create 6,000 jobs, and well as substantially contribute to Bolivia's social infrastructure. There are few historical instances, if any, where the development of one export has vastly changed the economic/social landscape of a country. Liquefied natural gas could be this one export for Bolivia. For those in Bolivia that cry out that the sale of natural gas reserves will only benefit foreigners and have little impact on the national economy, their concerns are ill-founded. By 2023, Bolivia will still have 43 percent of its natural gas reserves intact. The government is contemplating the establishment of a trust fund from the projected proceeds of natural gas that will primarily support educational and social-sector initiatives. Perhaps the only solution to this serious dilemma facing the Sanchez de Lozada administration is for Bolivia to negotiate a sovereign port in Chile (preferably Mejillones), which has been identified as the ideal port of export in numerous feasibility studies undertaken by bilateral, multilateral and private entities. This would mostly definitely quell anti-Chile sentiments within the opposition and radical left. The alternatives are close to nil."

> "It is difficult to see how Bolivia can begin to address its crushing social needs without tapping its vast natural gas reserves ..."
>
> -- Eric Farnsworth

**Guest Commentary: Miguel Diaz:** "Compared to other countries in the Hemisphere, Bolivia has historically avoided the kind of bloodshed that has erupted elsewhere in the

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## Economic News

### S&P Cites Default Risk, Slashes Ratings on Dominican Republic

Standard & Poor's said Wednesday that it had lowered two key ratings on the Dominican Republic due to the Caribbean country's looming debt. The ratings firm slashed its long-term foreign and local currency sovereign credit rating on the Dominican Republic to 'B-' from 'B+,' and its short-term foreign and local currency sovereign credit rating to 'C' from 'B.' S&P Credit Analyst Richard Francis said the ratings cuts were made out of concern that the country might default next year. "The government faces external payments of close to $1 billion through 2004, an amount almost triple the $315.2 million of gross liquid international reserves available as of Sept. 30," Francis said. "A quick resumption of discussions with the International Monetary Fund (IMF) ... combined with significant capital inflows from other official sources, would be key in staving off a possible external financing crisis in the year ahead. If relations with IMF are repaired or other sources of external funding are found, creditworthiness could improve."

### Mexico Cuts 2003 Growth Forecast to 1.5 Percent Amid US Weakness

The Mexican government on Wednesday lowered its forecast for economic growth this year to 1.5 percent. Finance Minister Francisco Gil said a sluggish economic recovery in the US manufacturing sector was mostly to blame for Mexico's disappointing economic performance. "The late recovery of the US manufacturing sector is being reflected in a slowdown in our growth," Gil told Mexican lawmakers. The US buys about 90 percent of all Mexican exports. Gil forecast 2003 inflation at 3.80 percent, in line with the central bank's target. The central bank lowered its economic growth target to 2 percent in July. Last week, the government said economic activity grew just 0.7 percent in July, below expectations. In other Mexico economic news, the country's IPC benchmark stock index gained 1.47 percent on Wednesday to end at 7,937.18 points, the IPC's highest level since March 2000.

### Argentina Tax Revenues Up 40.8 Percent in September

Tax revenues in Argentina rose 40.8 percent in September from the same month of 2002, tax agency officials said Wednesday, according to Reuters. Tax collection totaled 6.12 billion pesos ($US 2.1 billion) last month, up from 6.06 billion pesos in August. Under a new loan deal Argentina reached with the International Monetary Fund last month, the government pledged to significantly improve tax collection in the country, where tax evasion is notorious.

## Political News

### Peru to Create Battallion to Fight Rebels, Welcomes US Help

The Peruvian government said Wednesday it would create a special troop battallion to combat the resurgent Shining Path rebel group, Reuters reported. Interior Minister Fernando Rospigliosi told reporters Peru would welcome assistance from the US in creating the battallion. "I don't know if we will be able to count on help from the United States," Rospigliosi said. "If there was [help], that would be excellent." The US is already a major provider of mostly military aid to Peru's Andean neighbor, Colombia, which has been fighting a decades-long war with leftist rebels and right-wing paramilitary groups.

## Company News

### Three General Motors Executives Ordered Arrested in Venezuela

A Venezuelan court has issued arrest orders for three **General Motors Venezolana** executives for ignoring a court summons in a commercial dispute, a state prosecutor said Wednesday, according to Reuters. Jose Benigno Rojas told reporters that detention orders for contempt of court were issued last week for Michael Nylin, the US president of Venezuela's largest vehicle assembler, and senior executives Hugo Wieland and Luis Mejias Aleman. Rojas said Interpol had been asked to detain the three, who may no longer be in Venezuela.

A GM spokesman said the company was contesting the decision. Nylin, Wieland, and Mejias had ignored repeated summonses to answer a case against the US-owned corporation brought by two Venezuelan GM dealerships, **Automotriz Latino** and **El Central Mercantil**. The dealers had won a Supreme Court injunction against General Motors Venezolana's attempt to cancel their concessions, arguing that it infringed their economic rights under Venezuela's Constitution. "They (General Motors) did not obey the injunction," Rojas said.

### Brasil Telecom Announces Cut in 2003 Capital Expenditures

**Brasil Telecom** on Wednesday announced it would cut capital expenditures in 2003 to 1.4 billion reais ($US 478 million) from 1.8 billion reais in a move to reduce net debt, Reuters reported. In a statement, the fixed-line operator said it had made the decision "considering the permanent search for greater efficiency in using its cash resources and the economy slowdown during 2003." Brasil Telecom's controlling shareholder **CVC/Opportunity** has been fending off attempts by minority shareholder **Telecom Italia** to regain its voting stake in the company. Under rules governing Brazil's telecommunications sector, the Italian firm's return would block Brasil Telecom from launching mobile operations, since Telecom Italia already provides mobile services through its cellular unit, **TIM**.

### Kintetsu, Kuehne & Nagel Announce Latin America Venture

Japan's **Kintetsu World Express** and Swiss freighter company **Kuehne & Nagel** have begun a strategic partnership in Latin American markets, the Swiss firm said Wednesday, according to Reuters. Kuehne & Nagel will handle Kintetsu-affiliated business in Brazil, Peru, Venezuela, and Mexico and will be Kintetsu's exclusive handling agent for sea and air freight, and customs clearance. "This partnership will benefit both sides through the realization of synergies, the expansion of services and business opportunities, and the broadening of the customer base," Kuehne & Nagel said in a statement. "The new collaboration was expected to be a first step to closer cooperation in other markets." Kuehne & Nagel head Klaus-Michael Kuehne told the Swiss press he expected 5-10 percent annual growth in sales and profit in the next five years.

### Bancolombia to Lend Colombia $250 Million to Finance Budget

The Colombian finance ministry said Wednesday that bank **Bancolombia**'s Panamanian branch will lend the government as much as $250 million to help finance the 2003 and 2004 budgets, Reuters reported. A resolution published in Colombia's official registry said the six-year loan will be 3.93 percent above the London Inter-Bank Offered Rate. Bancolombia, Colombia's biggest bank, is controlled by the country's largest conglomerate, **Grupo Empresarial Antioqueno**. Although rare, private banks have lent the Colombian government funds before. Colombia's foreign public debt load grew 7.4 percent to $24.14 billion in the first five months of 2003.

### Mexico's TFM Buys Back Stake in Mexrail from Kansas City Southern

Mexican transport group **Transportacion Ferroviaria Mexicana** (TFM) bought back its 51 percent stake in **Mexrail Inc.** from **Kansas City Southern** (KCS), TFM's parent company, **Grupo TMM**, announced Wednesday, according to Reuters. When TFM sold its Mexrail stock for $32.68 million to KCS in May, it retained the right to buy back its share for the same price. At the time, KCS had negotiated to buy TMM's share of TFM for $412 million, but in August TMM's shareholders rejected the deal. KCS is seeking an injunction against TMM for backing out of the agreement. TMM is also restructuring $177 million in defaulted bonds and $200 million in debt due in 2006.



### Falabella Shareholders Set to Vote on Sodimac Acquisition

The shareholders of Chilean department store chain **Falabella** will vote October 17 on a planned takeover of hardware company **Sodimac SA,** which could create one of Latin America's largest retailers, Falabella said Wednesday, according to Reuters. The companies agreed in July that Falabella would buy Sodimac, worth $525 million, for an unspecified price. They valued their combined assets at $2.5 billion. Falabella, which expects $150 million in net profit for 2003, would operate in Chile, Argentina, Colombia, and Peru after the merger and estimates more than $2 billion in annual sales. It also plans to invest between $200 million and $400 million this year and next.

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region. Nevertheless, the trend is worrisome because formally and informally violence is gaining acceptability as an appropriate means to an end. There is an important sector of society, led by Evo Morales, that believes that violence is a useful currency in getting the attention of the government to grant concessions. Morales admitted to me as much in a meeting I had with him this past August in La Paz. Violence, in the form of increased criminality, is also on the rise throughout the country, hitting the Santa Cruz area particularly hard. Moreover, insufficient progress in professionalizing the police forces (after all, it was the police who led the February assault on the presidential palace) and the intromission in Bolivia of destabilizing forces, such as the FARC and ostensibly Hugo Chavez supporters, all feed the specter of another outbreak of violence. Unfortunately, there is no magic bullet solution to pacify the country. My instinct tells me that a long-term carrot and stick approach is needed. On the one hand, the message to get across to Morales and his supporters is that playing within the system is more profitable than disrupting from outside the system. Lula and other regional leaders who hail from the left can play an important role in delivering that message. On the other hand, Bolivia could use help from the international community and Washington in particular to strengthen the armed forces and professionalize the police. The commitment to do this probably exists in Washington, but I just hope it is not done too late."

**Guest Commentary: Eric Farnsworth:** "It is difficult to see how Bolivia can begin to address its crushing social needs without tapping its vast natural gas reserves for export, but Bolivia has a long history of politicians such as Evo Morales putting personal ambition above the national interest. Natural gas is barely used in Bolivia, certainly not to the extent that the significant excess cannot be exported, which will bring both the direct foreign investment Bolivia so desperately needs and a continuing new source of hard currency once the new production comes on line. But two things must first occur, both of them complicated. First, Bolivia must find a way to ensure that the government's profits from gas are broadly and visibly distributed throughout the population, not used to further enrich an entrenched and self-absorbed elite. And second, Bolivia must find a way to get its gas to the Pacific coast through the most economical route available, and as a result must come to an accommodation with Chile. Chile, for its part, would show immense hemispheric leadership by unilaterally providing an easement at its northernmost border, for a nominal fee such as one dollar per year on a 99-year lease. This would also help address the perennial Bolivian demand for access to the sea, with, perhaps, a more lasting resolution to follow. Nobel Peace Prize, anyone?"

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

**Miguel Diaz** is Director of the South America Project at the Center for Strategic & International Studies.

**Eric Farnsworth** is Vice President for Washington Operations at the Council of the Americas.

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Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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Phone: 202-822-9002 Fax: 202-822-9553