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Advisor ANALYSIS



Some critics say the US government is partially to blame for the recent turmoil in Bolivia because of a failure to adequately support the alternative development component of its coca eradication program in the South American country. Do you agree? What is the future of coca and coca eradication efforts in the Andean region in the wake of events in Bolivia?



Guest Commentary: Ivan Rebolledo: "The US government does have some culpability in the current turmoil that Bolivia is facing by not having provided the gravely sought political and economic assistance that was needed. Former President Gonzalo Sanchez de Lozada came to Washington in November of 2002 asking for \$150 million in emergency loans/assistance and received \$10 million -- a miniscule amount of what was realistically needed to ease the acute economic crisis by providing health care, education, and urgently needed infrastructure and jobs. Now, President Carlos Mesa is caught in a delicate and complex balancing act between US government demands and those of Bolivian indigenous leaders, who are demanding an end to the US-backed coca eradication program. The State Department has already declared that it will not give up its aggressive policies to eradicate coca in Bolivia. President Mesa has already publicly agreed to continue with the eradication programs, however he can not realistically continue to comply with these policies in light of other realities. It is obvious that more conflicts are soon to emerge between Washington and the very large segment of Bolivian indigenous coca growers. The primary concern that Foggy Bottom should have is what happens if President Mesa is toppled? Bolivia's instability could spread to adjacent countries with similar indigenous populations, such as Ecuador and Peru, that also share a coca issue. Already, grass roots indigenous movements in Ecuador and Peru have begun to step up their own agendas against the Toledo and Gutierrez governments, including that of coca cultivation."

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-- Michael Shifter

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Board Commentary: Tony Smith: "The US government's policy of coca eradication contributed to the turmoil in Bolivia in a number of ways. Some of the agricultural consultants to the Bolivian government contend that our eradication program damaged the soil so that

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Economic News

Fox Stands By Tax Reform Proposal

Mexican President Vicente Fox said Monday his government would stand by its proposal to reduce the country's value-added tax (VAT) to a flat 10 percent from 15 percent and tax all goods, including food and medicine, Reuters reported. Fox told reporters that the 2004 budget proposal, which will be sent to Congress later this week, would be open to discussion. "Our proposal is, yes, to go toward a general VAT level of 10 percent and we will always pay attention to discuss with Congress what can be done for the people with the lowest incomes in the country," Fox told reporters. The opposition-dominated Congress defeated Fox's previous bid to extend the VAT to food and medicines in 2001. Although senior congressional opponents are already negotiating for exemptions for the poor and a lower VAT on particular goods, Fox said the poor would be the "number one beneficiary" of a tax reform. According to Fox, the poor would contribute about 10 percent of the extra tax income but would receive 100 percent of the benefits though spending on social services like health and education. Fox also expressed a desire to reduce corporate tax rates to 30 percent from 33 percent and personal income taxes to 25 percent. In other Mexico news, Fox said he did not want to have "unrealistic expectations" about the possibility of reaching an immigration accord with the United States. "We have to keep our feet on the ground and be careful because we have had months without any advances," Fox told reporters on the eve of a three-day trip to Arizona, New Mexico and Texas. Fox had made an agreement regularizing the flow of Mexican workers into the United States a priority of his administration after taking office in 2000, but talks have been slowed by the US focus on the war on terror and by differences over the US-led invasion of Iraq.

Brazilian Exports Set New Monthly Record in October

Brazil exported a record \$7.57 billion in goods in October, the government announced Monday, according to Reuters.

The figure surpassed the previous record of \$7.28 billion set in September, and raised Brazil's trade surplus in October to \$2.54 billion from \$2.2 billion during the same month of 2002. Exports received a boost from growing demand for Brazilian products in Argentina and China. Exports to neighboring Argentina grew 120 percent year-on-year in October to \$510 million, while exports to China increased 60 percent to \$529 million. China is Brazil's second-largest export market after the United States, which bought \$1.51 billion worth of goods from Brazil in October, down 6 per-

Graham Won't Seek Re-Election to the US Senate

United States Senator and recent presidential hopeful Bob Graham (D-FL) said Monday he would not seek re-election to the US Senate next year.

Graham, 66, who dropped out of the race for the Democratic presidential nomination last month, said his decision not to seek a fourth term in the Senate was due to several factors, including his health, age, and family considerations.



Bob Graham. Photo: US Senate.

As chairman of the Senate Select Committee on Intelligence, Graham has been active in formulating US policy toward Latin America, including US support for Colombia's efforts against drug traffickers and illegal armed groups.

He supported expanding and extending US trade benefits to the Andean region and to Caribbean Basin countries, and has also worked on immigration issues.

Graham has opposed lifting the embargo against Cuba.

Editor's note: look for a story on the potential impact of Graham's departure from the Senate on US policy toward Latin America in tomorrow's issue of the Latin America Advisor.

cent from a year ago. Overall, exports grew 17 percent from a year ago. Exports of iron ore rose 87 percent year-on-year to \$491 million, while soybean exports expanded 37 percent to \$485 million.

IMF Approves Third Review of Peru Loan Program

The International Monetary Fund said Monday it had approved its third review of its two-year program for Peru, praising the country's positive economic performance and citing advances in implementing economic reforms. The decision by the IMF's Executive Board enables the release of \$40 million to Peru, bringing the total amount released since the current loan agreement was approved in February 2002 to \$287 million. Peru has yet to withdraw any of the IMF funds. In a press release, IMF Deputy Managing Director and Acting Executive Board Chairman Agustin Carstens noted Peru's "favorable" economic performance, including projected 4 percent gross domestic product growth and 2 percent inflation for 2003, a trend which the Fund expects will continue. "The outlook for next year and the medium term is also positive, assuming continued implementation of prudent macroeconomic policies and structural reforms," Carstens stated. "At the same time, it will be important to sustain a broad domestic consensus on key reforms to promote growth, keep inflation low, and continue to reduce economic vulnerabilities originated in the current levels of public debt and financial dollarization." Carstens said the government of President Alejandro Toledo has made good progress on enacting structural reforms, including a law on fiscal prudence and transparency, and creation of a legal framework for fiscal decentralization. The government also plans to implement tax and public pension reforms this year, Carstens noted. "These reforms, together with increased flexibility on expenditures, concessions, and prudent debt management, will support continued medium-term fiscal consolidation, promote growth, and improve

the quality of public services," Carstens said.

Company News

Portugal Telecom Converting TCO into Subsidiary of Telesp

Portugal Telecom (PT) said Monday it would make Brazilian unit **Tele Centro Oeste Celular Participacoes** (TCO) a subsidiary of **Telesp Celular Participacoes**, Reuters reported. In a statement, PT said the merger would combine shareholders into a more liquid, single listed company and would unify the businesses' management. Telesp Celular is one of the companies of **Vivo** -- a joint venture of PT and Spain's **Telefonica Moviles**, and Brazil's largest mobile operator. Telesp and TCO will discuss the change at December 22 shareholder meetings.

Swiss International Asks Brazil's Embraer to Postpone Jet Delivery

Embraer Brasileira de Aeronautica said Monday that **Swiss International Air Lines** had again asked the Brazilian jetmaker to allow it to postpone its order for Embraer 170 and 195 model planes, Reuters reported. Embraer, the world's fourth-largest airplane manufacturer, gave no timeframe for postponement negotiations with Swiss. Swiss halved its initial order for 20 small and medium-sized Embraer jets in March, and delayed the delivery of the remaining planes, forcing Embraer to cut its jet delivery goal. Embraer said Monday, however, that it would stick to next year's delivery target. "As there are currently only four deliveries scheduled for Swiss in 2004 and there is potential demand for short-term Embraer 170 production slots, Embraer does not anticipate a reduction in its forecast of 160 airplanes to be delivered in 2004," the company said in a statement. Embraer, which slashed its 2003 year-end delivery target three times this year, said it delivered 20 jets in the third quarter,

compared to 30 in the same three-month period of 2002.

Telefonica CTC Chile Plans to Invest \$180 Million Next Year

Top Chilean telephone company **Telefonica CTC Chile** on Monday announced plans to invest \$180 million in 2004 to expand mobile telephony services, corporate communications, and data lines, Reuters reported. CTC, a unit of Spain's **Telefonica**, invested \$230 million -- mainly in its mobile unit -- in 2003, 21.7 percent more than the figure announced yesterday for next year. Company head Claudio Munoz explained to reporters that CTC's long-term investment strategy depended on Chile's regulatory framework, especially the five-year phone rates the government is due to announce. "Regulatory conditions are absolutely relevant to be able to define any long-term investment strategy and that is what we are going to find out in February for mobile telephony and in May for fixed telephony." The government has singled out CTC's dominant market position in the past with regimes that in 1999 reduced fixed line rates by 14 percent and forced CTC to charge its competitors 60 percent less for access to its networks.

US Court Approves Telmex's Purchase of AT&T Latin America

A US court on Monday okayed the acquisition of bankrupt US-based telecommunications service provider **AT&T Latin America** by **Telefonos de Mexico** (Telmex), Reuters reported. Telmex, owned by Mexican billionaire Carlos Slim, announced last month it would buy AT&T LA, which serves mostly corporate customers in Argentina, Brazil, Chile, Colombia, and Peru, for \$207 million. The acquisition marks the Mexican giant's first foray outside of its home country in what company spokesman Arturo Elias Ayub called "the internationalization of Telmex." [Editor's note: see related article in October 31, 2003 issue of the *Latin America Telecom Advisor*.]

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it was unproductive for alternative crops. In addition, agricultural subsidies in the developed countries ensure that most agricultural crops in Central and South America cannot compete with the developed countries' agriculture in world markets, nor are earnings from alternative crops sufficient to make up for the losses involved in the eradication of the highly profitable coca leaf. During Gonzalo Sanchez de Lozada's election, the public efforts of the US Embassy in La Paz helped elevate Evo Morales in the eyes of his constituents. The result is that he is now a major broker in Bolivia. Lastly, the US Treasury has been tone-deaf in its support for Central and South American countries in their efforts to obtain IMF or multilateral funding. On the one hand, Bolivia and other Andean countries are prevented from growing a crop (admittedly a scourge) that has a free market in the United States. At the same time, they are required to adhere to market-based fiscal policies. Bolivia qualified for the Highly Indebted Poor Country Initiative (HIPC), but cannot get IMF relief (a condition present for HIPC relief) because their fiscal house wasn't in order. They don't have the cash to balance their budget. In fact, again and again the US has been the problem, not the solution. The problem is that it is unlikely that there will be change in US policy. With the size of the deficit, it's unlikely the US will soften or reverse its support for stringent fiscal policies. It's also unlikely that the US will, anytime in the foreseeable future, admit that the coca problem starts with a market in this country. It doesn't appear there is any light at the end of the tunnel."

Guest Commentary: Michael Shifter: "It is not entirely clear even whether the most enlightened US policy toward Bolivia and a more generous assistance program would have prevented the fall of the already fragile coalition government led by Sanchez de Lozada. A number of factors, both internal and external to the country, account for what happened. Still, US policy could have been much more helpful than it was, at least by compensating the eradication efforts with serious social development programs. The single-minded focus on eradication of coca proved self-defeating and further undermined democratic institutions. Little thought appears to have been given to the wider consequences of that narrow concern with law enforcement. With senior US officials so distracted by Iraq, it is doubtful that there will be serious rethinking of coca eradication programs, which also threaten to fuel social tensions and unrest in Peru. The fall of coca production in Colombia in 2002 -- and continued, projected decline in 2003 -- have given US officials some 'good news' to point to, and are likely to make it difficult to come up with more sensitive and flexible approaches."

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