



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
Director for Corporate
and Govt. Affairs,
Kraft Foods Inc. |
| 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 Muñoz
President,
The Otun Group |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co. | Thomas F. McLarty III
President,
Kissinger McLarty
Associates |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Carlos Paz-Soldan
Partner,
Saul Ewing, LLP |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Beatrice Rangel
President & CEO,
AMLA Consulting |
| Jonathon Flott
Senior 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
Chairman of the
Board of Trustees,
Mexican Council on
Foreign Relations |
| Javier Garza
Chairman and CEO,
Grupo Domos
Internacional | Everett Santos
President,
DALEC LLC |
| | Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings |

Featured Q&A With Our Board of Advisors

Q Brazilian President Luiz Inacio Lula da Silva visited the US presidential retreat of Camp David on Saturday for a meeting with President George W. Bush. What was the significance of the meeting for the US and Brazil? What are the benefits to both countries of closer cooperation on hemispheric and global issues?

A **Guest Comment: Riordan Roett:** "The visit appears to have been mainly symbolic. There was no breakthrough on the WTO Doha round of trade talks. President Bush indicated that the White House cannot remove the tariff on Brazilian ethanol—that is a congressional decision. And there is little, if any, likelihood that Congress will act before elections next year. The Brazilian government will not support the war in Iraq or other bellicose decisions in the region. Both public opinion and government policy are clear in that respect. Brazil has indicated that it will not take a public position against the government of President Hugo Chavez, nor criticize the other populist regimes in Bolivia and Ecuador. Non-interference in the internal affairs of neighboring countries is a hallmark of Brazilian diplomacy. It is understood in Brasilia that President Bush is a lame duck. The attention given to Brazil with both visits is welcome and viewed in Brasilia as deserved, given the Brazilian track record on consolidating economic and financial stability and providing regional leadership. It will

be up to the next White House to decide whether or not the US should have a more proactive role in the region."

A **Guest Comment: Melvyn Levitsky:** "It is unprecedented for a US and a Latin American president to meet officially twice within such a short time span. Given the fact that follow-up from President Bush's recent visit to Brazil could have been handled at lower levels of government, it seems clear that both governments viewed the Lula visit to the US as a symbolic demonstration of their desire to work together bilaterally and in the Hemisphere, particu-

Continued on page 4

PHOTO OF THE DAY



Peruvian President Alan Garcia told his interior minister Monday to launch airstrikes against jungle drug factories and airstrips used by drug traffickers. See story on page 2.

Photo: Peruvian presidency.

Inside This Issue

FEATURED Q&A: What Was the Significance of Saturday's Bush-Lula Meeting?.....	1
Ecuador's Adoption of US Dollar "A Complete Failure"—Correa.....	2
Peru's Garcia Calls for Airstrikes on Drug Factories, Airstrips.....	2
Argentina Defends its Claim to Falkland Islands.....	3
Bolivia to Negotiate Return of Entel to State Control.....	3
The Dialogue Continues: Will Bolivia's Evo Morales Run in, and Win, an Early Election?....	3

NEWS BRIEFS

Spanish Foreign Minister Travels to Cuba

Spanish Foreign Minister Miguel Angel Moratinos visited Cuba on Monday, the most senior European Union government official to go to Cuba since a 2003 dispute over dissident arrests, the Associated Press reported. The visit by Moratinos, who will meet with acting President Raul Castro today, is seen as a possible first step toward mending relations. Castro took power in July after his brother, Fidel Castro, ceded his authority in order to undergo intestinal surgery.

Brazil Posted \$3.32 Billion Trade Surplus in March

Brazil recorded a trade surplus of \$3.32 billion last month, compared to a \$2.88 billion surplus in February, the Brazilian trade ministry said Monday, according to Reuters. Exports rose to \$12.86 billion in March on high commodity prices, while imports were also up, coming in at \$9.53 billion, as Brazilian firms have recently taken advantage of local currency gains to make purchases abroad, Reuters reported.

Virgin Blue to Buy Six More Jets from Brazil's Embraer

Australia's **Virgin Blue Airlines** will purchase six planes from Brazilian jetmaker **Embraer**—three Embraer 170 jets and three Embraer 190 jets—complementing a November order for 14 planes, the Brazilian manufacturer announced in a press release on Monday. Embraer has logged 619 firm orders and 568 options for its "E-jets" since beginning to sell them in March 2004, according to company data as of December 2006.

Economic News

Ecuador's Adoption of US Dollar "A Complete Failure"—Correa

Ecuador's adoption of the US dollar as its official currency has been "a complete failure," President Rafael Correa said Monday, according to Bloomberg News. In a speech in the city of Guayaquil, Correa said Ecuador's adoption of the dollar has hurt the Andean nation's exports, limiting job creation, stunting economic growth, and only benefiting the financial and oil industries. *Photo: Carondelet*



"We've stabilized at price levels that are far too high," Correa was quoted as saying. "The dollar has been a complete failure." Ecuador adopted the dollar as its official currency in 2000, a year after defaulting on

\$135 million bond payment due in February. In a [press release](#) posted on the presidential Web site, the government said it planned to raise spending on social investment and production to nearly 50 percent of the national budget by 2010 from about 28.4 percent in 2006, and reduce debt service from 33.6 percent last year to 11.8 percent in 2010.

Political News

Peru's Garcia Calls for Airstrikes on Drug Factories, Airstrips

Peruvian President Alan Garcia on Monday told his interior minister to launch air strikes against jungle drug factories and airstrips used by drug traffickers. "We've got to finish every last [cocaine] factory and every last airport. Use the A37 planes, bomb and attack these airports, these factories with machine guns," Garcia said during a speech to kick

Correa said Ecuador's adoption of the dollar has hurt the Andean nation's exports, limiting job creation, stunting economic growth, and only benefiting the financial and oil industries.

\$6.5 billion in debt. The move helped to stabilize the country's economy, resulting in a fall in inflation from triple digits to single digits. But Correa said when you remove the effect of high oil prices, economic growth has been weak. Ecuador's non-oil trade deficit in 2006 was six times higher than in 2000, he said. He said weak growth was limiting tax collection and making it harder to repay the country's debt. Ecuador spends more on debt payments than on social programs, he said. The government will seek to reschedule debt payments to extend maturities, and will not repay debt that is found to be "illegitimate," including debt to Ecuador's Central Bank and some debt with the World Bank, Correa said, according to Bloomberg News. Since taking office in January, Correa has threatened to default on Ecuador's \$10 billion in foreign debt. Despite the threat, the government made a

off a forum on hemispheric security, directing his remarks to Interior Minister Luis Alva Castro, the country's top law enforcement official, according to a [press release](#) posted on the presidential Web site. Garcia said he would not be "blackmailed" and would not "concede a millimeter" to drug traffickers. He said he would not be a spectator in the war on drugs and urged all Peruvians to join in the fight against drug cultivation and trafficking. Garcia's forceful anti-drug speech came a day after he announced that the destruction of coca crops would resume in one of the most important cocaine-making regions in Peru, the second-largest producer of cocaine after Colombia, according to Reuters. Officials had made a deal with local farmers to halt the eradication. The Peruvian leader also asked the minister of agriculture to provide seeds and other types of help to farmers to give them an

alternative to cultivating coca. Last year, Peruvian police raided 718 cocaine factories and seized 14.7 tons of partially processed cocaine, Reuters reported, citing government data. Police also destroyed more than 25,000 acres of illegal coca crops.

Argentina Defends its Claim to Falkland Islands

Argentina defended its claim to the Falkland Islands on Monday, marking the 25th anniversary of the start of the war it lost to Great Britain for control of the islands. Foreign Minister Jorge Taiana, who in January called on United Nations Secretary-General Ban Ki-moon to support negotiations between Argentina and the UK, on Monday said that he will step up pressure. "As foreign minister, I have the trust of the national government to seek greater pressure in reclaiming the exercise of sovereignty," Taiana was quoted as saying on local television during a vigil to honor soldiers who died during the 1982 war, which was initiated by the South American nation's military dictatorship, according to local daily *El Clarin*. The 73-day war over the Falkland Islands, known as the Malvinas Islands in Argentina, took the lives of 649 Argentine and 258 British soldiers. Last week, Argentine President Nestor Kirchner decided to abandon a 1995 oil exploration agreement with Great Britain. "We won't maintain accords with Great Britain that don't favor both parties," Taiana was quoted as saying in *El Clarin*. Argentina claims that Britain seized the islands in 1833. The countries re-established diplomatic relations in 1990. [Editor's note: look for related Q&A in an upcoming edition of the *Advisor*].

Company News

Bolivia to Negotiate Return of Entel to State Control

Bolivian President Evo Morales on Monday decreed the creation of an inter-ministerial ad hoc committee to negotiate the return to state control of telecom company **Entel**, the country's biggest fixed-

The Dialogue Continues

Will Morales Run in, and Win, an Early Bolivian Election?

Q Bolivian President Evo Morales said last month that he would not compete in an early presidential election once an assembly finishes rewriting the nation's Constitution, although a spokesman later said that Morales would run if his supporters asked him to. Do you think Morales would run in the election? Would he win?

A **Guest Comment: Ivan Rebolledo:** "It is rather clear to most Bolivia followers that President Morales will most certainly run for re-election in next year's possible elections. Morales wants the Assembly to have complete and absolute powers, which would obviously allow delegates to lobby for new articles calling for new elections. In light of the president's current high approval rating of 65 percent, in spite of the recent corruption charges levied against his party and serious mistakes in the signing of new contracts with the oil sector, it is only obvious that his popularity will be used to ignite a re-election campaign. His popularity stems from broad-based support, but also because he has 'delivered' on most of his campaign promises—far more than any recent president. The question is at what cost, and

whether his policies have further fractionalized the country. He would need to win back certain sectors of the electorate—especially cooperative miners, transport unions, and others—which he has alienated with recent policy decisions. The lack of a true opposition party or candidate(s) will also make his possible re-election process easier. The emergence of Manfred Reyes Villa, current governor of Cochabamba, on the national scene with the support of the traditional lowland (Santa Cruz) elites, could make him a contender, but he still needs to win more national 'space.' Most certainly he would use the complex issue of regional autonomies as a rallying force in these possible early elections. The other emerging candidate is the mayor of Potosí, also of indigenous roots."

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

*Editor's note: the above is a continuation of a Q&A published in the [March 29, 2007 issue](#) of the *Advisor*.*

line and mobile operator, state news service **ABI** reported. The commission, made up of officials from the ministries of the presidency, finance, and public works, and the vice ministries of government coordination and telecommunications, will have 30 days to negotiate the renationalization of Entel with its parent company, **Euro Telecom International**, which is in turn controlled by **Telecom Italia**. Telecom Italia paid \$160 million for a 50 percent stake when Entel was privatized in 1995. Pension funds controlled by Spanish bank **BBVA** and Swiss insurance company

Zurich each hold 23.7 percent stakes in Entel. According to ABI, the decree noted that a government review of Entel's legal and financial records uncovered irregularities in the company's administration and operation, affecting its investments and tax payments. No additional details were provided. Telecom Italia, which has sold much of its assets in Latin America while it tries to focus on its home market, has reportedly been looking to sell its stake in Entel for at least a year. The Morales government first said it was looking to recover control of Entel in June.

Featured Q&A*Continued from page 1*

larly in the biofuels area. For Brazil, the visit raised President Lula's stature as a Latin American leader with access to and influence over US policymakers. It gave Lula an opportunity to lobby vigorously for a lowering of tariffs and barriers to Brazilian ethanol and other products—see especially [his op-ed](#) in *The Washington Post*. In the wake of Chavez's antics at the UN and during the Bush trip to Latin America, the second meeting between Bush and Lula projected an image of Lula's mature leadership, responsibility, and persistence in pressing forward Brazil's—and Latin America's—agenda in Washington. It is

“It is a major goal of Brazil's nationalistic foreign ministry to portray Lula as the best representative of Latin America's interests.”

—Melvyn Levitsky

a major goal of Brazil's nationalistic foreign ministry to portray Lula as the best representative of Latin America's interests. For President Bush, the meetings with Lula were aimed at demonstrating the administration's commitment to improving and expanding relations with Latin America at a troubled time for its foreign policy in other areas of the world. The current emphasis on biofuels also highlights the policy of searching for viable, sustainable alternatives to fossil fuels as well as a newer public concern with global warming. These are essentially 'legacy' issues for President Bush. In sum, the two visits have strengthened US-Brazilian relations by demonstrating that it is in the interests of both countries (and both leaders) to abandon rhetoric for accomplishment and mutual benefit. Here symbolism and substance have been joined in a way that strengthens both countries' national goals.”

A **Guest Comment: Rubens Barbosa:** "In their second meeting in less than a month, Presidents Lula and Bush showed a strong, reciprocal interest in developing a positive agenda. The two meetings were more symbolic than practical. They were also part of the domestic political agenda of both presidents. The results made this assessment explicit. The final communique and the agreements made public indicate that the two governments will have important follow-up work. Otherwise, the agreements on ethanol and cooperation in third markets (Latin America and Africa) will remain examples of good intentions never fulfilled. If both administrations follow up on the agreements signed, new avenues of cooperation will be opened between the two countries in areas of mutual interest, especially in research and development, and in health and agribusiness in African countries. From the private-sector point of view, the creation of the CEO Forum of both countries may become an engine to promote new initiatives on trade and investment (which so far have had little support from the two governments)."

Riordan Roett is Director of the Latin American Studies Program at the Johns Hopkins University's School for Advanced International Studies.

Melvyn Levitsky is a Senior Fellow at the University of Michigan's International Policy Center and a former US Ambassador to Brazil.

Ruben Barbosa is a Senior Director at Stonebridge International in Brazil and a former Brazilian Ambassador to the US.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2007

Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Elisabeth Burgess,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Claudio Loser,
Senior Fellow

Manuel Orozco,
Executive Director, Remittances and Rural Development Project

Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at fretrial@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. 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.