



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Negotiations for a free trade agreement between Mercosur and the European Union are reportedly on track to be completed by October. Why do EU-Mercosur talks appear to be faring better than FTAA talks? Do attitudes in the Mercosur countries, especially Brazil, toward trade with the EU differ from attitudes on trade with the US? Why?

**A** Guest Comment: Thomas O'Keefe: "The reason why the EU-Mercosur talks appear to be moving along faster than the FTAA is that the Mercosur countries appear inclined to accept a 'bargain with the devil' that the EU has proposed. Namely, no concessions on agricultural subsidies of any kind in exchange for increasing EU quotas on the importation of Mercosur beef and other agricultural products. Overall, the public in the Mercosur is more receptive to a free trade agreement with the EU, perhaps because there is a perception (whether true or not) that an EU deal implies greater restructuring aid for the Mercosur countries. The Bush administration's imperialist foreign policy certainly has done nothing to disarm Latin America's many FTAA critics, who view the Western Hemisphere integration project as an attempt to make the region permanently subservient to US corporate interests. There are, after all, many in Latin America with living memory of continuous US invasions and interventions to 'bring democracy' to the region

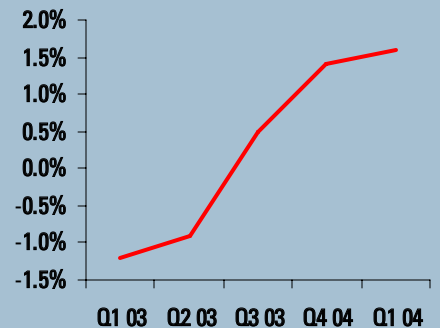
that led to brutal dictatorships, extensive torture training by US officials, and thousands of dead and exiled."

**A** Guest Comment: Roberto Teixeira da Costa: "Let me first say that I'm registering my opinion before knowing the outcome of the meeting of the European Union and Latin American heads of state in Guadalajara, where certainly the agreement will occupy an important space on the agenda. Specifically answering the question, I will indicate some points that could bring some

*Continued on page 4*

### CHART OF THE DAY

**Brazil Q/Q GDP Growth**  
Q1 2003-Q1 2004



Brazil's economy grew 1.6 percent in the first quarter compared to the fourth quarter of 2003. See related story on page 2.

Source: Central Bank.

### Inside This Issue

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## NEWS BRIEFS

**Mexico, Cuba to Restore Ties**

Mexico and Cuba agreed Thursday to re-establish diplomatic relations at the ambassadorial level. Mexico recalled its ambassador from Havana on May 2 and expelled Cuba's ambassador in Mexico after Cuban President Fidel Castro gave a May 1 speech in which he accused Mexico of bowing to the US for voting to condemn Cuba's human rights record at the United Nations.

Source: El Universal.

**Peru Announces Plan to Lower Taxes if World Oil Prices Rise**

Peru on Thursday announced a plan to lower taxes on fuel to prevent local fuel prices from further rising on high world oil prices, said Energy and Mines Minister Jaime Quijandria. Over the next 120 days, Peru will monitor oil prices for two-week stints and will cut the so-called selective consumer tax by an unspecified amount if international prices rise higher than \$40 for a barrel of crude. "This is not to reduce fuel costs but to prevent them from rising. It is a stabilizing measure," said Quijandria.

Source: Reuters.

**Fujimori Sought Guidance from Fortuneteller Before Fleeing Peru**

Ex-Peruvian President Alberto Fujimori consulted a fortuneteller in 2000, who told him he should flee and warned him of the corruption scandal that felled his government, according to a video of the consultation released on Wednesday. In the video, which was shown on Peruvian television, Fujimori asked the fortuneteller if he should flee. "It would be good," responded the fortuneteller. Fujimori fled to Japan in September 2000.

Source: Reuters.

## Economic News

**Brazilian Economy Grew 2.7 Percent in First Quarter**

Brazil's economy expanded a greater-than-expected 2.7 percent in the first quarter from the same period of 2003, powered by growth in the country's booming agriculture sector, according to government data released Thursday. The economy grew 1.6 percent from the last three months of 2003, the third consecutive quarter of quarter-on-quarter growth. For the second straight quarter, annualized growth surpassed 6 percent, putting Brazil well on track toward meeting market expectations for growth of 3.5 percent this year. In a research note published this morning, investment bank **Credit Suisse First Boston** said market consensus may predict even higher growth. "In addition to this

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possible improvement, the result will most likely have a positive impact on political dynamics, with less questioning within the administration itself of the conduction of economic policy, including monetary policy," CSFB said. Growth in the first quarter was led by agriculture, which grew 5.1 percent year-on-year, followed by industry (2.7 percent) and services (1.23 percent).

**Argentina to Make Revised Debt Offer Next Week**

Argentine Cabinet Chief Alberto Fernandez said Thursday that Argentina would make its final offer to bondholders next week to restructure its \$99.4 billion in defaulted debt, two and a half years after the country's record default, Bloomberg News reported. "We'll have the proposal next week," Fernandez told local radio. "I prefer not to make any speculation on what the offer will be until then." Argentine newspapers said earlier this week that the government would improve the terms of the offer it originally made in

September 2003. Bondholders have widely rejected that offer, which proposed paying bondholders just 10 cents per \$1 face value, and launched multiple lawsuits. The revised offer could give bondholders up to 25 cents per \$1 of the defaulted bonds' net present value. The co-chair of the Global Argentina Bondholders Committee, Hans Humes, has accused Argentina of breaking a promise made in April to negotiate its offer. Last week, the country said none of this year's excess revenue would go to debt repayment.

**Mexico, Other Countries to Increase Oil Production**

US Energy Secretary Spencer Abraham said Thursday that the US expects extra oil supplies to come from Mexico, Nigeria, and Russia, Reuters reported. "We also have positive signs from Mexico, Nigeria,

and Russia that production will rise to meet the global demand," said Abraham. "My impression is that there will be more such indications coming." Mexico, which is not a member of the Organization of the Petroleum Exporting Countries (OPEC), has said it would raise its output to 1.95 million barrels per day (bpd) in the second half of this year by pumping an extra 70,000 bpd. "We want to reach the figure established by Congress, which is 1.95 million barrels per day, around the second half of the year," Energy Minister Felipe Calderon told reporters at an energy forum in Mexico City. He warned, however, that output would not rise "overnight." Most OPEC members, like Russia, have been pumping oil at full capacity this year. Saudi Arabia said last weekend it was prepared to pump its maximum of 10.5 million bpd to meet demand.

**Colombian Banana Workers Go on Strike Over Wages**

A majority of Colombia's banana workers

on Thursday began an indefinite strike after negotiations for new wages with companies failed, Reuters reported. "We were a long way apart and we couldn't reach an agreement," said Oswaldo Cuadrado, president of the Sintrainagro banana workers union. Some 16,000 workers in Uraba, which produces 90 percent of the country's bananas, were striking, stopping exports immediately, he said. "The banana workers are at home and there isn't really any work going on in the banana region at this moment," said the president of the Colombian Banana Association, Roberto Hoya. The Association negotiated on behalf of the banana companies, offering a 6 percent wage increase, which is equal to the rate of inflation. Workers want a 9 percent wage increase over their \$200 a month salary. Colombia earned about \$310 million in banana export sales in 2003—2.5 percent of the country's exports—for shipping 55 million 20-kilo boxes of bananas. Eighty to 90 percent of Colombia's exports end up in the US and Europe. The US' **Chiquita Brands International** is one of the largest exporters, but is under US federal investigation for alleged protection payments by its Colombian subsidiary to illegal armed groups.

## Political News

### Chavez Accuses US of Trying to Force Recall Referendum Against Him

On the eve of a decisive, four-day signature verification process to determine whether Venezuelan President Hugo Chavez should face a recall referendum, Chavez on Thursday accused the United States of trying to force the referendum against him, Reuters reported. "They [the United States] feel they have power over our national institutions ... this is arrogant, defiant imperialism," Chavez said. The Venezuelan leader made the comments after a senior US official said Venezuela could be suspended from the Organization of American States if it blocks the referendum. US Secretary of State Colin Powell called the verification of signatures in favor of the referendum a "defining moment" for Venezuela's

## Capitol Hill Watch

*A weekly look at US congressional activity on Latin America*

### Louisiana Senator Blasts CAFTA, Bush

United States Senator Mary Landrieu (D-LA) criticized the Central American Free Trade Agreement (CAFTA) and President George W. Bush for his support of the trade pact in a conference call with reporters this week. The Kerry campaign has reportedly recruited the freshman senator and American Sugar Cane League Chairman Jackie Theriot to attack Bush's support of CAFTA, which could boost US sugar imports. Sen. Landrieu said in a conference call with reporters that Bush "should address the issue to the people of Louisiana and explain what the impact is going to be of a policy that his administration has negotiated ... Are they or are they not selling Louisiana's industry down the river?"

*Source: Times-Picayune.*

### Caricom Ministers Meet with US Congressional Delegation

Foreign and trade ministers from the Caricom states ended two days of meetings in Miami yesterday with members of a US Congressional delegation that included Donald Payne (D-NJ), Cass Ballenger (R-NC), Gregory Meeks (D-NY), Donna Christensen (D-VI), Katherine Harris (R-FL), and Kendrick Meek (D-FL). The Washington-based Inter-American Economic Council, which convened the meeting, said in a release that discussions focused heavily on the FTAA negotiations, the third border initiative, security, health, commodities, criminal deportees, immigration, transnational crime, and illegal trade in arms.

*Source: Inter-American Economic Council.*

democracy and urged the Chavez government to allow a "fair and credible" process. The four-day verification process starts today. Opposition supporters will have until Monday to confirm the validity of over one million disputed signatures. The opposition needs about 525,000 signatures to be declared valid in order to reach the minimum 2.4 million signatures legally required to trigger the referendum, which could be held in August. Chavez has condemned the referendum drive as a fraud, stating he would never allow it to go forward, only to later say he welcomes the vote and would respect the outcome. The OAS and the Atlanta-based Carter Center are in Venezuela to monitor the signature verification process, but only after the government earlier this week backed down from threats to exclude them.

However, yesterday Vice President Jose Vicente Rangel accused Fernando Jaramillo, the head of the OAS observer mission in Venezuela, of favoring the opposition. "We no longer accept Mr. Jaramillo as head of the OAS observer mission in our country," Rangel stated. OAS Secretary General Cesar Gaviria said he would travel to Caracas to take over the OAS observer mission. Rangel also called the Bush administration "a bunch of madmen." Chavez has repeatedly accused the US of meddling in Venezuelan affairs, including supporting a coup against his government in April 2002. The US has denied the charges, but has expressed concern about the fairness of the referendum process. Venezuela is the fifth-largest oil producer in the world and the third-largest supplier of oil to the United States.

**Featured Q&A***Continued from page 1*

light to the issue: 1) the FTAA ambitions as designed in Miami in 1994 were much more ample than the free trade agreement which has been discussed between the European Union and Mercosur; 2) even taking into consideration that the FTAA has been reduced in its objectives in different moments during the recent months and years, nevertheless the initial idea was predominant; 3) there was a feeling that US, due to the already low average tariffs practiced in its foreign

“... There is high political motivation to conclude the Mercosur/EU agreement, especially in Brazil, in order to bolster the *de facto* standing of Mercosur in international affairs ...”

– Eric Farnsworth

trade, did not have too many cards to put on the table, while for Brazil the agricultural issue (subsidies) and antidumping were a very important subject; 4) Mercosur interests in dealing with the European Union were easier to define, rather than treating with the interests of over 30 countries in the FTAA; 5) the 'single undertaking' theme was an obstacle in the FTAA negotiations; 6) Brazilian businessmen were not prepared to go to Washington and fight for their interests as the Mexicans did; 7) as time developed, there was a feeling that FTAA was a project supported only by the executive branch of the US government and that the political class was not prepared to give any concessions after the very difficult TPA approval; 8) this became more evident in the present circumstances, due to the elections in the US; 9) right now, it is quite clear that an agreement like NAFTA, which was approved 10 years ago, would never be passed nowadays. Even CAFTA will be facing difficulties in Congress due to questions about labor standards; and 10)

Brazilian industrialists always have shown much more concern about the competition of US products in our market than those of Europe. It is difficult for them to compete due to the high cost of capital, inefficient infrastructure, and a tax system that does not create necessary incentives. That explains why productivity in the USA is much higher. I purposely did not list anti-Americanism among that list because personally I believe this is not an issue. Business is business, and the US continues to be our largest market for manufactured and semi-manufactured products."

**A** **Guest Comment: Eric Farnsworth:** "The negotiations between Mercosur and the EU appear to be on a faster track than FTAA for two primary reasons. The first is that the number of parties involved in the former is less, so that, as a practical matter, the negotiations are less complicated. More important, however, is that there is high political motivation to conclude the Mercosur/EU agreement, especially in Brazil, in order to bolster the *de facto* standing of Mercosur in international affairs, and also to build a counterweight to the United States within the FTAA context. Because of the nature of trade negotiations, good politics always wins out over good economics. But the question remains: over the long term, will Brazil be better served by bandwagoning or balancing with the United States? At this point, with the benefits of doing so uncertain, Brazil has chosen to balance."

**Thomas O'Keefe** is President of the *Mercosur Consulting Group*.

**Roberto Teixeira da Costa** is Vice Trustee of the *Brazilian Center for International Relations (CEBRI)*.

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