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Featured Q&A With Our Board of Advisors

Q Ecuadorean President Lucio Gutierrez has reportedly backed away from a plan to allow exiled former President Abdala Bucaram to return to the Andean nation in exchange for the support of Bucaram's Roldosista Party (PRE) in Congress, amid opposition to Bucaram's return by the Social Christian Party (PSC), the largest party in Congress. What is the future of Bucaram and the PRE in Ecuador? Can Gutierrez effectively use the threat of an alliance with the PRE to gain leverage with the PSC and propel his economic reforms?

A Guest Comment: Alberto Acosta: "Bucaram fled in 1996 to Panama. From there, with known regularity, from time to time he announces that he is returning, that he will enter through Esmeraldas or Machala or Guayaquil or ... This character, a fugitive from justice, describes himself as politically persecuted, like other notable fugitives of this small Andean country: former Presidents Jamil Mahuad or Gustavo Noboa, former Vice President Alberto Dahik, and several other ex-ministers. And without taking a step in return to face justice—something which speaks well of his quality as a popular leader—Bucaram manipulates national politics with his party and legislative bloc. In every year of his absence, characterized by weak and corrupt governments, like that of Colonel Lucio Gutierrez, Bucaram has been one of the key

figures in national *politiqueria*. From afar he maintains his 'power' based on a permanent game of blackmail and offers. Without assuming his criminal responsibility, Bucaram devalues democracy from the comfort of exile. And now, upon getting even Gutierrez to say that he as a citizen would let Bucaram return without having to go before judges, he weakens even more the fragile democratic institutions, like the judicial branch. But in this entire process of corrupt negotiations, Bucaram has nothing to lose, since in the end the one who is devalued is the leader that aids these manipulations: Gutierrez, whose popularity, credibility, citizen support, and citizen

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PHOTO OF THE DAY



An estimated 160,000 Mexicans marched Sunday in support of Mexico City Mayor Andres Manuel Lopez Obrado. See related story on page 2.

Photo: Office of the Mayor.

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NEWS BRIEFS

Mexico Tightens Monetary Policy Among Signs of Higher Inflation

Mexico's central bank on Friday tightened monetary policy for the fifth time this year, citing signs of accelerating inflation. Banco de Mexico raised the *corto*, or amount of money it withholds from local banks, to 45 million pesos (\$US 3.96 million) from 41 million pesos. The bank said inflation was "unexpectedly high" during the first half of August, and that short- and long-term inflation expectations exceed targets. The bank has a goal of 4 percent inflation in 2004.

Source: Banco de Mexico.

Citigroup, Morgan Stanley Raise Recommendations on Brazil Bonds

Investment banks Citigroup and Morgan Stanley both said Friday they had raised their recommendations on Brazilian sovereign bonds. Citigroup upgraded its recommendation to "neutral" from "underweight," citing strong exports, higher growth expectations, and a positive outlook for government reform initiatives. Morgan Stanley increased its recommendation to "overweight" from "even-weight."

Source: Reuters.

Argentine Supermarket Sales Rise 7.3 Percent YoY in July

Supermarket sales in Argentina grew 7.3 percent in July compared to the same month of 2003, according to preliminary government data. Sales rose 0.9 percent from the previous month, which recorded the slowest growth in supermarket purchases of the year. Supermarket sales are a key indicator of consumer spending, which accounts for about two-thirds of Argentina's gross domestic product.

Source: INDEC, Reuters.

Political News**Thousands March in Mexico City to Show Support for Embattled Mayor**

An estimated 160,000 Mexicans marched in Mexico City Sunday to show their support for presidential hopeful Andres Manuel Lopez Obrador amid government accusations that could block the popular Mexico City mayor from entering the 2006 election, Reuters reported. Lopez Obrador, of the leftist Party of the Democratic Revolution (PRD), told his supporters that he was innocent of charges—leveled by the National Action Party (PAN) government of President Vicente Fox—that he ignored a court order to halt road works by the city on a tract of expropriated land in 2000. "In front of you, I say sincerely that I have violated no law," Lopez Obrador declared. The mayor, who is the frontrunner in polls for the 2006 race to succeed Fox, would be

Chavez Promises Tougher Action on Land Reform in Venezuela

Venezuelan President Hugo Chavez on Sunday vowed to pursue a more aggressive land redistribution policy, Reuters reported. Fresh off his victory in Venezuela's August 15 referendum on his rule, the fiery president said he ordered military commanders to investigate whether large landowners are making productive use of their land. "I want a report on the estates under each military command ... We are going after the idle land to put it to work," Chavez said during his weekly radio and television program. Chavez said he would seek a "strict application" of the country's 2001 land reform law, which authorized punitive taxes and possible government intervention in the case of landowners with estates larger than 12,355 acres who are not using the land. Large landowners say the law is a threat to private property and have denounced hundreds of illegal

Despite a series of corruption scandals and criticism he has not done enough to stop violent crime in Mexico City, Lopez Obrador leads his closest rivals in presidential polls by as much as 10 percentage points.

barred from running if he is found guilty. Mexico's Congress, dominated by the main opposition Institutional Revolutionary Party (PRI), is expected to decide whether to lift Lopez Obrador's immunity from prosecution in the coming months. The PRI hopes to return to power in 2006 after Fox ended the party's 71-year grip on the presidency in 2000. Despite a series of corruption scandals earlier this year involving members of Lopez Obrador's government and criticism from Fox that he has not done enough to stop violent crime in Mexico City, the mayor leads his closest rivals in presidential polls by as much as 10 percentage points. In his speech to supporters on Sunday, Lopez Obrador outlined his national agenda as president, including calls for less poverty, greater rights for indigenous peoples, and equal education opportunities. "Together we need to transform the country into one that is more just and more free for everyone," Lopez Obrador said.

land invasions by poor farmers who they say are encouraged by Chavez's rhetoric. The president, however, tried to assure landowners that the government would not expropriate property and invited them to talks with his government. "We are not the enemy of rural estates," he said. "I call on all those who own lots of idle land, let's talk." In 2003, the government said it planned to distribute 3.7 million acres of land to rural workers. Some analysts argue that Chavez's referendum victory will embolden him to push for more state control over the economy. [Editor's note: see related Q&A in the August 17, 2004 issue of the *Latin America Advisor*.] In other Venezuela news, the government on Friday recalled its ambassador to Panama to protest remarks made last week by Panama's outgoing president, Mireya Moscoso, when announcing the pardon of four Cuban exiles accused of plotting to assassinate Cuban President Fidel Castro. Moscoso said she had freed the men on

humanitarian grounds, saying the men could be executed if they were extradited to Cuba or Venezuela. Cuba severed diplomatic relations with Panama on Thursday following the pardons. Chavez and Castro are close friends and allies.

Economic News

Uribe Asks Exporters to Protect Themselves from Peso Appreciation

The government of Colombian President Alvaro Uribe on Saturday asked exporters to take steps to protect themselves from the Andean country's appreciating currency, Reuters reported. The government asked exporters to purchase dollar futures that will allow them to hedge against a continued strengthening of the peso, which has risen 7.54 percent against the dollar so far this year. The peso's appreciation has sparked concerns that exports could be hurt. The government has said it would explore ways to contain the peso, short of lowering interest rates. Central Bank President Miguel Urrutia has said lowering interest rates could lead to higher inflation. Uribe met with Central Bank officials over the weekend to discuss what he calls the peso's "dangerous" appreciation. In a note posted on the presidential Web site following the meeting, the government said it and the Central Bank "will continue to look for solutions." Despite the peso's strengthening, Colombia posted a 36 percent increase in exports in June compared to the same month of 2003, according to Reuters. Exports totaled \$1.40 billion, led by a 25 percent jump in oil sales to \$372.9 million amid high global oil prices. Non-traditional exports, which include flowers, food textile, and auto products, rose 35 percent to \$774.2 million. For the first six months of this year, total exports rose 17 percent year-on-year to \$7.32 billion.

Company News

Shareholders Approve AmBev-Interbrew Merger

Shareholders of Brazil's **AmBev** and

The Dialogue Continues

A continuation of the August 27, 2004 Q&A

Q Mexico's National Financial Convention this month announced some proposals for tax reform, including a measure to grant state-owned oil monopoly Pemex greater financial flexibility. What is your assessment of the proposed reforms? How would they affect government revenue streams? Will the reforms have enough support to overcome resistance in Mexico's opposition-dominated Congress?

A **Guest Comment: Tapen Sinha:** "Pemex is a government cash cow. A substantial portion of government revenue (still) comes from Pemex. Unless there is a change in law, there will not be any financial independence of Pemex. If Pemex is given financial flexibility, it will only be able to continue oil production if it invests more and gives back to the government less money in the short run. This will reduce government revenue for the time being. To

keep the budget deficit under control, this will necessitate a cut in expenditure. At this stage of the political cycle, there will be no support from the opposition for any cut in government expenditure. Therefore, the only flexibility the government can offer (and has offered for the past seven years) to Pemex is to allow for investment through methods outside the government budget process (called *Pidiregas*). Proposals for increasing the tax base have not worked in the past. They will not work in the future unless more workers can be incorporated in the formal sector of the economy. At present, any prospect for that to happen looks bleak."

Tapen Sinha is *ING Comercial America* Chair and Professor of Risk Management at *Instituto Tecnológico Autónomo de México*.

Belgium's **Interbrew** on Friday approved a merger of the two brewers, Reuters reported. During meetings in Brussels and Sao Paulo, shareholders voted in favor of the \$9.7 billion merger, creating the world's largest brewer by volume with control of some 14 percent of the global beer market. The new company, called **InBev**, hopes to expand in Latin America and North America. Under the terms of the deal, Interbrew gains 57 percent control of AmBev through a controlling company, **Braco**, while in return AmBev will get control of the Labatt brand in Canada and the Rolling Rock brand in the United States, according to the Associated Press. AmBev, which was formed from the merger of Brazil's two biggest brewers in 2000, contributes the popular Skol and Brahma beers to Interbrew's Stella Artois, Beck's,

Bass, and Rolling Rock brands. "We believe we can be at 30 percent profit margin in the next several years," said Interbrew CEO John Brock, who will remain chief executive after the merger. Brock said the long-term strategy of Inbev, which will announce its new management structure Monday, is a reduction in the number of breweries Interbrew owns in a bid to cut costs. Interbrew, one of the world's oldest beer companies, is run by three families and has grown to include operations in 21 countries and now sells 200 brands. In related news, Colombian brewer **Bavaria** on Sunday denied having sold its stake in Peruvian brewer **Backus** to InBev, according to Reuters. Peruvian media had reported the sale by Bavaria, Latin America's fourth-largest brewer, over the weekend.

Featured Q&A*Continued from page 1*

trust, according to data by Spectrum Flash—in agreement with the data of other serious pollsters—fell sharply to 7.6 percent, 3.07 percent, 5.63 percent, and 4 percent, respectively, in July."

A Guest Comment: Michael Shifter: "President Gutierrez is in a precarious political position and is trying to shore up as much support as possible to preserve his Patriotic Society Party, in advance of October's local elections. Most analysts agree that PSC leader and former President Febres Cordero plays a critical, behind-the-scenes role in shaping key decisions made by the Gutierrez administration. By suggesting that former President Bucaram could return without facing charges for corruption, Gutierrez appeared to be seeking to broaden his support to include Bucaram's PRE. But he soon discovered that the room for such political maneuvering was limited. Gutierrez's shaky standing does not allow him to risk the backing of Febres Cordero, who sees Bucaram as a fierce rival and threatened to impeach Gutierrez if he allowed Bucaram to return. That idea is already embraced by the Democratic Left (ID) opposition party. Gutierrez would have also jeopardized continued support from his own political advisors if he pressed for Bucaram's return. Bucaram and his PRE may well be focused on the longer-term, laying the groundwork for judicial and political party reforms that could eventually help bring back the former president. Though 25 years of democratic rule has brought important benefits to Ecuador, its political institutions remain fragmented and fragile."

A Guest Comment: Walter Spurrier: "If there had been an understanding, it was that the government would have instructed the police not to search for Bucaram, even though there may be an arrest warrant for him. The reason they need some understanding between the PRE and the government is because Gutierrez needs the PRE's and the New

Party for National Action's (PRIAN) support to avoid impeachment. In addition, Gutierrez's party is in danger of losing its legal status because if it does not get 5 percent of the vote in local elections in October, it will lose its status as a party. So Gutierrez has some kind of understanding with the PRE to get their support so his party does not get disbarred. They may have some support from the PRE for the president's candidates and in return the PRE gets good will from the president—they have certain positions in government, the ministry of agriculture, for instance. Bucaram would probably want to come for the next presidential election in 2006. Gutierrez has a reason to give whatever support he can to Bucaram for the presidency in exchange for the PRE's support to protect him from prosecution by the next government. The PRE has been losing support because Bucaram hasn't been here and the Social Christian party has had good results in its local administrations. The Social Christians are going to win their fourth straight victory in the Guayaquil elections, and probably their fourth straight victory in Guayas province, which has a fourth of the population. Bucaram has a role to play in the next presidential election and then is when he is going to make his move, not now."

Alberto Acosta is an Economist and Consultant for the Latin American Institute for Social Research in Ecuador.

Michael Shifter is Vice President for Policy at the Inter-American Dialogue.

Walter Spurrier is Editor of Guayaquil-based Weekly Analysis.

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Erik Brand,
General Manager, Publishing

Robert Simpson,
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Devin Finn,
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Computer Services Coordinator

Inter-American Dialogue:

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Director for Caribbean Projects

Claudio Loser,
Senior Fellow

Jeffrey M. Puryear,
Program Director and Senior Fellow

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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