

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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

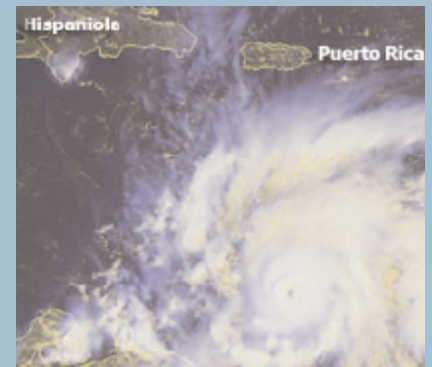
**Q** Colombian President Alvaro Uribe has congratulated Venezuelan President Hugo Chavez for his victory in the August 15 recall referendum despite what has been at times a tense relationship marred by Venezuela's alleged support for leftist rebels in Colombia. What is the future of Venezuela-Colombia relations? Will growing trade contribute to improved relations and foster cooperation?

**A** Guest Comment: Juan Manuel Santos: "Colombia and Venezuela are condemned to have good relations and that is what President Uribe is trying to maintain despite his clear ideological differences with Chavez. The Uribe administration has decided to 'appease' Chavez instead of confronting him because, in a strictly cost-benefit analysis, this is in Colombia's best interest in the short run. Proof of this are the agreements that were signed at the last bilateral summit (just before the referendum) in areas such as gas exploration, and the construction of a pipeline and a seaport to allow access of Venezuelan oil to the Pacific Basin. Any improvement in trade flows is also very beneficial to Colombian interests. This is clearly a marriage of convenience, but built on very shaky ground. Chavez is destroying Venezuelan democracy and his intention to export the so-called bolivarian revolution will put him at odds with the rest of Latin America, except for Cuba. His

affinity with Colombia's guerrillas and his very good relations with members of the radical left will sooner or later produce a confrontation with Uribe, particularly since Chavez, according to many well informed sources, is allowing his territory to be used as a sanctuary for members of the terrorist groups. This clearly represents a threat to Uribe's most important objective: his policy of achieving 'democratic security.' Why? Because it neutralizes all the efforts to corner the leaders of the guerrilla. So in the meantime, during this post referendum honeymoon we will probably see a 'fraternal' but very hypocritical relationship, with many pats on the back by

*Continued on page 4*

### PHOTO OF THE DAY



Hurricane Ivan devastated Grenada on Tuesday and is headed toward Jamaica. See related story on page 2.

*Photo: NOAA*

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## NEWS BRIEFS

**Brazil Proclaims Victory at WTO on EU Sugar, US Cotton Subsidies**

Brazil said it had scored a victory at the World Trade Organization after the multilateral trade body ruled Wednesday that subsidies for US cotton and European Union sugar are illegal. "What we hope is that [the rulings] ... favor even more the negotiating environment so that in the Doha Round we can bring agriculture into the general rules of international trade," said foreign ministry trade official Roberto Azevedo.

Source: *Agencia Brasil*.

**Venezuelan Opposition to Legally Challenge Referendum Result**

Venezuela's opposition said Wednesday it would submit a legal challenge to President Hugo Chavez's victory in the country's August 15 referendum. A legal representative for the Democratic Coordinator opposition alliance said the challenge would be presented to the National Electoral Council this week and could be taken later to the courts. The opposition claims the Chavez government committed fraud in the referendum.

Source: *Reuters*.

**Rebel Leader Warns of Possible Retaliation for Slain Comrades**

A Haitian rebel leader on Wednesday condemned the killing of three rebels Tuesday night by police and United Nations peacekeeping troops. Remissainthe Ravix said rebels were "preparing an appropriate response" after two armed comrades were shot dead by police at a checkpoint in Port-au-Prince and another killed during an attack on a police station in Petit-Goave. [Editor's note: look for a related Q&A on Haiti's security situation in tomorrow's issue of the *Latin America Advisor*.]

Source: *Reuters*.

**Economic News****Hurricane Ivan Devastates Grenada, Due to Hit Jamaica Tomorrow**

Hurricane Ivan devastated the Caribbean island of Grenada, killing at least 20 people, officials said Wednesday, according to Reuters. "I can estimate about 85 percent devastation," legislator Kenrick Fullerton was quoted as saying. "All our major communication networks are down except the telephone service, which is partially up and running." Fullerton said several schools were destroyed by the Category 5 hurricane, which struck the Caribbean island on Tuesday, as were a prison and the official residence of Grenada's prime minister, Keith Mitchell. "We have got a

sought congressional approval for a VAT on food and medicine, but was blocked by Mexico's opposition parties. This time, Fox is only giving Congress a set of recommendations and leaving it to lawmakers to determine which ones to adopt. A key recommendation proposes reducing the federal VAT from 15 percent to 12 percent, and creating a new tax that would give 2 percent to state governments and 1 percent to municipal government. The recommendation was the product of several months of talks between the federal and local governments. Fox was expected to submit his 2005 budget proposal to Congress yesterday. The 1.55 trillion-peso (\$US 134 billion) budget is down 6 percent from this year's budget, and would lower the fiscal deficit to 0.1 percent of GDP from the 0.3 percent target this year.

“We have got a tremendous hit that we never expected—you are talking hundreds of millions of dollars of damage.”

- Grenada's prime minister, Keith Mitchell

tremendous hit that we never expected—you are talking hundreds of millions of dollars of damage," Mitchell was quoted as telling BBC Radio. "We have declared the country a national disaster." Ivan, whose 160 mph winds show no signs of abating, is expected to hit Jamaica on Friday. The hurricane forced refinery closures in the Caribbean, threatening to limit supplies to the United States. US refiner Valero shut down its 275,000 barrel per day refinery in Aruba, while two Venezuelan-run refineries were also closed.

**Fox Leaves Food Tax Proposal Out of Mexico's 2005 Budget**

Mexican President Vicente Fox has left a controversial value-added tax on food out of his proposed 2005 budget, a senior official said Wednesday, according to Reuters. Eduardo Sojo, the top public policy aide to Fox, said lawmakers would have to decide themselves how to raise extra revenue to compensate for a loss in federal government revenue from proposed VAT changes. Fox has in the past unsuccessfully

**Report: Colombia Made the Most Pro-Investor Changes in Region**

Colombia made the most progress among Latin American countries in improving its investment climate and implementing reforms last year, according to a report published Wednesday by the World Bank Group and its private-sector lending arm, International Finance Corporation (IFC). The report, "Doing Business in 2005: Removing Obstacles to Growth" rated Colombia the second-fastest reformer in the world, citing the Andean country's improvements in new business generation, contract enforcement, and employment regulation. In 2003, Colombia slashed the time it takes to start a business from 60 to 43 days, resulting in a 16 percent increase in its new businesses over the year, the report found. It also ended a public-sector monopoly on the enforcement of judicial decisions, cutting the time to collect overdue debt by 30 percent. Colombia, Nicaragua, Argentina, Honduras, Bolivia and Brazil were among 58 countries that reformed business regulation or strength-

ened the protection of property rights in the last year, according to the report, which measured regulatory performance and reforms in 145 nations. Chile ranked in the top 25 percent of nations surveyed in terms of the ease of doing business, while Ecuador, Guatemala, Honduras and Venezuela ranked in the lowest quartile. Latin American countries have the weakest legal protections in place for lenders and borrowers of any region in the world, the report found, noting also that they have the least efficient process for resolving business disputes. The report cited the difficulties businesses encounter in poor countries, which offer less than half the property rights protections of wealthy nations. "Poor countries that desperately need new enterprises and jobs risk falling even further behind rich ones who are simplifying regulation and making their investment climates more business friendly," said Michael Klein, World Bank/IFC vice president for private-sector development and IFC chief economist. The report states that those countries with simpler regulations and strong property rights have a higher potential to implement effective reforms and build attractive economic climates for investors, businesses and the public. The report was produced by some 3,000 local business consultants, lawyers, government officials, and academics, and is the second in a series of annual reports investigating the scope and manner of regulations that enhance business activity and those that constrain it, in order to identify positive economic reforms. For more information, go to <http://rru.worldbank.org/doingbusiness>.

## Company News

### Bunge to Invest \$1.3 Billion in Brazilian Terminals, Warehouses

The Brazilian subsidiary of US soy processor **Bunge Ltd.** plans to invest \$1.3 billion in grain and fertilizer warehouses and port terminals over the next three years amid expected growth in soy exports, Reuters reported Wednesday, citing a report in local daily *Valor Economico*. The company will invest \$320 million in logistics and another \$100 million in a new

## Capitol Hill Watch

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

### Senate Subcommittee Approves Easing Rules for Travel to Cuba

A Senate Appropriations subcommittee on Wednesday voted to relax restrictions on travel to Cuba to sell agricultural and medical goods. The Agriculture Rural Development, and Related Services subcommittee approved an amendment sponsored by Sens. Byron Dorgan (D-ND) and Larry Craig (R-ID) to create a general license permitting "travel to, from, and within Cuba for the purpose of conferring, exhibiting, marketing, planning, sales negotiation, delivery, expediting, facilitating, or servicing commercial export of agricultural and medical goods." Craig said the license, which would require less paperwork and time required to plan a trip, was necessary after new restrictions on trade and travel to Cuba were authorized by the Bush administration in June. The new restrictions, Craig said, "shoved agricultural people ... to the bottom of the list" for obtaining travel licenses from the Treasury Department. The Dorgan-Craig amendment was attached to a fiscal 2005 spending bill for the Agriculture Department. The bill now goes to the full Appropriations Committee.

*Source: Reuters.*

### Hispanic Lawmakers to Participate in Issues Conference Next Week

Several Hispanic members of Congress will participate in the Congressional Hispanic Caucus Institute's 2004 Issues Conference next Monday and Tuesday in Washington, DC. Hispanic lawmakers will chair special "summit" meetings based on the various taskforces of the Congressional Hispanic Caucus. Summit topics include international relations and trade, immigration, banking and finance, education, and civil rights. Participating lawmakers are Solomon Ortiz (D-TX), Loretta Sanchez (D-CA), Nydia Velazquez (D-NY), Charles Gonzalez (D-TX), Joe Baca (D-CA), Ruben Hinojosa (D-TX), Hilda Solis (D-CA), Luis Gutierrez (D-IL), Silvestre Reyes (D-TX), Grace Napolitano (D-CA), Ed Pastor (D-AZ), Anibal Acevedo Vila (D-PR), and Xavier Becerra (D-CA). September is Hispanic Heritage Month in the United States. For event details, see <http://www.chci.org>.

*Source: Congressional Hispanic Caucus Institute.*

terminal near Brazil's largest port, Santos. Construction of the new terminal, which would have the capacity to move some 10 million tons of soybeans a year, awaits the resolution of a dispute with government environmental agency Ibama, since it would sit on an estuary. Three partners — railway **Ferronorte**, soy producer **Grupo Maggi**, and fertilizer firm **Fertimport** — will invest an additional \$350 million in the terminal. Bunge Corporate Director

Adalgison Telles said the company, Brazil's largest soybean exporter and agricultural company, expects to increase exports of Brazilian soybeans, meal, and oil by 30 percent from the 2004-2005 crop, which it estimates at 62 million tons. Asian demand, driven by China, should account for more than half of Bunge's sales in three to four years, Telles said. Currently the company ships about half of its exports to Western Europe.

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

two leaders who clearly have very profound differences. Let's not fool ourselves: deep inside they see each other as a potential threat. And sooner or later this is bound to surface."

**A Guest Comment: Mark Feierstein:** "Pragmatism has been a hallmark of official relations between Colombia and Venezuela, despite differences and incidents that have put the countries' relationship under serious strain of late. Chavez's support of the FARC has angered Colombian officials, while Venezuela has charged that Colombia does not adequately police its border and that its hard-line policies have pushed armed groups into Venezuela. Last December, Venezuelan troops clashed with Colombian paramilitary groups along the border. In April of this year, the Venezuelan government made a show of arresting Colombian paramilitaries allegedly plotting a coup against Chavez. Despite these incidents, both sides have generally endeavored to patch up their differences, and this is likely to continue, given the countries' shared interests. Both countries have an interest in securing a porous border in order to reduce the movement of armed groups. In addition, there is a sizable population of Colombians in Venezuela, and many became citizens this year as part of the Venezuelan government's citizenship drive in advance of the presidential recall referendum. Bilateral trade, meanwhile, is flourishing and essential to each country; Colombia and Venezuela are each other's most important trading partner, after the United States."

**A Guest Comment: Marc Chernick:** "The Uribe administration has been making friendly overtures toward Chavez over the last year. About a month before the referendum they signed an agreement to have a natural gas pipeline go from Venezuela all the way to Colombia's Choco province. So the tendency has been to work with Chavez and

the Venezuelans. There have been accusations about Venezuelan support. But the Uribe administration has basically not tried to foster animosity or hostility toward Chavez and has clearly made the decision to work with him. Currently, there are no negotiations with the FARC, so Venezuela is not playing the role of peacemaker as it once did before. Trade between the two countries was once flourishing and then largely declined as a result of economic crisis in both countries at different periods. There is incentive to increase trade, and I think that depends on the state of the economies in both countries. From the Colombian side, it's not an emotional relationship where anyone wants to take reprisals against Chavez. These are mature countries that can deal with their neighbors. Colombia has a very close relationship with the US, and Venezuela does not. That's a given that does not seem to be affecting the bilateral relationship between the two countries. There are problems in the relationship. There is a war going on in Colombia, and insurgents, paramilitaries, and militaries regularly cross borders. In those instances, every now and then they ignite tensions. That can happen at any time and will happen. That is the course of doing business and the course of the bilateral relationship."

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