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Thursday, February 17, 2005

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Latin America Advisor

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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Featured Q&A *With Our Board of Advisors*

Q A US State Department spokesman said last week Venezuela's plans to purchase weapons from Russia is "extremely troubling" and suggested that Venezuela could give the weapons to rebels in neighboring Colombia and elsewhere. Is the arms sale really a cause for concern? In what other ways might the US react?

A Guest Comment: Miguel Diaz: "The decision by Chavez to purchase an array of new arms is unwelcome news, both for Venezuela and for the region, but one must be careful not to exaggerate its implications either. Venezuela's military—like those of other countries in the region—is in need of modernization, but the scale of the promised purchases does raise legitimate concerns about whatever other motives Chavez may have in mind. Let us not forget that Chavez is a soldier by training and that he entered Venezuela's political scene as the head of a military coup. I am particularly fearful that Chavez is inclined to follow through on his often-repeated threat to arm his supporters for the purpose of intimidating the opposition. One also has to wonder about the risk that arms fall into the hands of destabilizing, extra official forces in the region that Chavez has shown some affinity to in the past. The way Chavez is going about making these commitments is also telling of the moribund state of Venezuela's democracy. Lamentably, the international media has done a poor job of reporting how the lack of independent democratic institutions and newly introduced muzzle laws has made it impossible for anybody in Venezuela to put a check on Chavez's haphazard decision to go on an arms spending spree. One should ask what kind of public debate has taken place in Venezuela on an issue that has important defense and budget ramifications for the country? The answer is none. Indeed, an argument can be made that Chavez has decided to go ahead with these purchases to ingratiate himself with the one institution he may not fully control—the Venezuelan military. As for the US response, I lament that Washington has been alone in raising concern about the

Continued on page 4

PHOTO OF THE DAY

Mexico City Mayor Andres Manuel Lopez Obrador said Wednesday if elected president next year he would seek to restructure the country's debt. See story, page 2.

Photo: Mexico City government.

Inside This Issue

FEATURED Q&A: Is the Sale of Russian Arms to Venezuela a Cause for Concern? 1

Protesters in Ecuador Demand Gutierrez's Resignation 2

PT Leader Vows to Improved Relations in Brazil's Lower House.....2

Lopez Obrador Says He Would Restructure Mexico's Debt 2

Oil Drives 17.3 Percent Growth in Venezuelan Economy in 2004.....3

Subscriber Notice: Discussion on Argentina's Economic Outlook 3

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NEWS BRIEFS

Brazil Sends 2,000 Troops to Amazon in Wake of Nun's Murder

The Brazilian government on Wednesday sent some 2,000 army soldiers to the northern Amazonian state of Para to prevent further killings by death squads blamed for the murder on Saturday of a prominent US environmental activist. President Luiz Inacio "Lula" da Silva has called for an investigation into the slaying of 74 year-old Dorothy Stang by men believed to have been hired by local ranchers. Stang, a Catholic nun, was the most prominent Amazon activist to be killed since environmentalist Chico Mendes was murdered in 1988.

Source: Reuters.

Mexican Economy Expanded 4.4 Percent in 2004

Mexico's economy grew 4.4 percent in 2004, boosted by strong US demand for its manufacturing exports. In the fourth quarter, the economy expanded 4.9 percent compared to the same period of 2003. Services posted fourth-quarter growth of 5.6 percent, followed by industry (3.6 percent) and agriculture (2.9 percent).

Source: Reuters, INEGI.

Cencosud Launches Offer to Buy Almacenes Paris

Chilean supermarket chain **Cencosud** on Wednesday launched its public offering for shares of department store chain **Almacenes Paris**. In newspaper advertisements, Cencosud said it was offering Paris shareholders one Cencosud share for 1.1871 shares of Paris. The public offering, which values Paris at $870 million, was originally scheduled to begin in March.

Source: Reuters.

Political News

Protesters in Ecuador Demand Gutierrez's Resignation

Tens of thousands of protesters demonstrated near the presidential palace in Quito, Ecuador to demand President Lucio Gutierrez resign, the Associated Press reported. Protesters, who numbered about 70,000 according to unofficial estimates, accused Gutierrez of acting like a dictator and chanted "Lucio, out." Quito Mayor Paco Moncayo, a possible candidate in next year's presidential election from the Democratic Left party, demanded Gutierrez appoint an independent judiciary to replace 27 out of 31 Supreme Court judges sacked by a pro-government congressional majority in December, according to Reuters. "The people of Ecuador do not want judges that are affiliated with anyone," Moncayo was quoted as saying in a speech to the protesters. Gutierrez says the ousted judges were controlled by the opposition Social Christian Party. Last month, he proposed a referendum to restructure the Supreme Court, reduce congressional powers, and increase his executive authority, the AP reported.

Quito Mayor Paco Moncayo, a possible candidate in next year's presidential election from the Democratic Left party, demanded Gutierrez appoint an independent judiciary.

PT Leader Vows to Improved Relations in Brazil's Lower House

The leader of Brazil's ruling Workers' Party (PT) promised Wednesday to improve relations with Congress following the PT's loss of a key leadership post in the lower house, Reuters reported. "It is time for the party to change its relations with the lower house," Workers' Party President Jose Genoino was quoted as saying. "We have to reduce our arrogance. We should negotiate with Congress with humility and respect." In a vote Tuesday, the government of President Luiz Inacio "Lula" da Silva lost the speaker of the house position to a low-profile challenger in what some say was a backlash against what they call the Lula administration's inaccessibility and failure to work cooperatively with members of Congress. The conservative Progressive Party (PP)'s Severino Cavalcanti, clinched the post over PT lawmaker Luiz Eduardo Greenhalgh. Analysts say Tuesday's defeat will force the PT to to share power with its allies in the government coalition, including the allocation of some cabinet posts to members of other parties. "The defeat suggests to us the government has been weak in its political coordination, and that the party's base of support in the Chamber of Deputies is fragmented," **UBS** analyst Victoria Werneck said in a research note published yesterday. "However, we think the defeat is unlikely to be much of a setback if the government deals correctly with its root causes." Lula needs congressional support to pass pending legislation, including a key tax reform bill and a proposal to make the Central Bank independent. Cavalcanti, who is said to have voted in favor of fiscal discipline, is not seen as a threat by investors to the continuing stability of Brazil's booming economy, which grew around 5 percent in 2004. In other Brazil news, the Central Bank on Wednesday raised its benchmark Selic interest rate 50 basis points to 18.75 percent, a 16-month high, according to Reuters. It was the sixth straight monthly rate hike by the Bank, which is seeking to curb inflation.

Economic News

Lopez Obrador Says He Would Restructure Mexico's Debt

Mexico City Mayor Andres Manuel Lopez Obrador—a leading candidate in Mexico's 2006 presidential contest—said Wednesday he would seek to restructure the country's debt if elected, Reuters

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reported. Lopez Obrador, of the leftist Party of the Democratic Revolution, said Mexico's public debt stands at $270 billion, not the $100 billion reported by the government, because of debt known as "pidiregas" used for long-term projects and not normally included in calculations of the country's total debt. "It has to be clarified that the pidiregas are debt and we need to find a way to renegotiate this enormous public debt," the mayor was quoted as telling foreign journalists. "It is not about declaring a moratorium of payments." He did not provide additional details or say whether a debt restructuring would be voluntary for creditors. Last month, **Standard & Poor's** raised its credit ratings on Mexico, citing the country's reduced vulnerability to external economic shocks. The S&P upgrade followed a similar action by **Moody's Investors Service** earlier in the month. The governor of Mexico's central bank, Guillermo Ortiz, however, has warned that uncertainty surrounding next year's presidential election next year could hurt growth and inflation this year, and scare off investors, although he said that is not the bank's "main scenario." Lopez Obrador also said yesterday if elected he would maintain good relations with the United States, which buys some 90 percent of Mexico's exports. The mayor said his foreign policy "would be cautious, not flashy."

Oil Drives 17.3 Percent Growth in Venezuelan Economy in 2004

High oil prices and growth in manufacturing and construction powered Venezuela's economy to 17.3 percent growth in 2004, Reuters reported. After an oil industry recession in 2003—when a two-month strike and political referendum against President Hugo Chavez reduced crude production and investors' confidence—recent high oil prices have allowed for increased government spending. In addition to drops in unemployment and inflation, lower interest rates have boosted consumer spending. The Central Bank said the country's oil sector grew 8.7 percent in 2004 compared with a 1.9 percent contraction the year before, while the non-oil sector grew 17.8 percent last year compared with a 7.5 percent contraction in 2003. The Bank said Venezuela's current account surplus rose to $14.6 billion last year from $11.4 billion in 2003 as oil output rose 47 percent to $32.5 billion. Oil exports of $8.8 billion in the fourth quarter and last year's overall growth were both record figures, according to the Bank, which forecasts at least 5 percent growth for 2005. Venezuela, the world's fifth-largest crude exporter, gets about half its government revenue from oil profits. Revenues from oil exports allowed Chavez to raise spending 61 percent in 2004 on social programs such as food and medical care on his way to victory in the August referendum on his rule.

Subscriber Notice

Discussion on

Argentina's Economic Outlook

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Tuesday, March 1, 2005
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Featured Q&A

Continued from page 1

purchases, since it plays into Chavez's game plan to grandstand as the region's bulwark against the Americans. Certainly, no one expects Washington's complaints to change Chavez's mind, although the US should express its concerns in private to relevant parties in Latin America and Europe."

A Guest Comment: Michael Shifter: "Arms sales throughout the region are indeed cause for concern. To be sure, governments have the prerogative to buy arms to modernize their forces for legitimate purposes. The chief problem, however, is that there is no regional framework to regulate such purchases, and very little transparency and monitoring. In a context marked by mounting mistrust among countries, and deep suspicions of the motives of US policy, there is greater likelihood of an arms race that could pose a real problem and eventually get out of control. Given pockets of instability in Latin America—including on the porous and violent Colombia/Venezuela border—Washington should encourage other governments, particularly Brazil (which is planning to sell combat planes to Venezuela), to work together to develop an appropriate set of regional norms. The United States could be a catalyst for such an initiative by consulting with Latin American governments to get them on board. Under these circumstances, should the Chavez government give arms to Colombian rebels (who unfortunately have little difficulty acquiring arms), such an act would presumably be public information, and would occasion a collective, regional response. This issue came up a decade ago, prompted by the Peru/Ecuador border war, but scant progress was made. It merits another, more serious, look."

A Board Comment: Donna Hrinak: "The US government has long been concerned about Chavez government ties to and support for the Colombian guerrillas, particularly the FARC. For the past few years, whenever US officials have raised the issue with members of the Chavez administration, their response has been denial, accompanied by demands for 'proof.' Whatever the (legitimate) Venezuelan protests about how he was spirited out of Venezuela, Rodrigo Granda's long-term, protected presence there is clear evidence of Chavez ties to the FARC. In this context alone, US government concerns about the possible diversion of the arms purchases would be well taken. In addition, however, individual members of the Venezuelan Armed Forces were known long before to have sold small arms to various cash-paying customers across the Colombian border. Thus, even if the government were not behind the transaction, diversion of these arms is a real possibility. The US is doing what it can best do for now in trying to discourage the sale and pointing out the dangers. Over the longer run it will be important to coordinate actions with Venezuela's neighbors who have the most direct security concerns about arms trafficking in the region."

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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

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