

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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

**Q** Earlier this month, the US Departments of State and Homeland Security announced the Western Hemisphere Travel Initiative, which will require citizens of the US, Mexico, Canada, and Bermuda to have passports or "other accepted secure documents" to enter or re-enter the United States. Last week, President George W. Bush said he wants the Initiative to be more flexible so as not to disrupt border traffic. Is such flexibility feasible? Can the US reasonably balance concerns about security and cross-border commerce?

**A** Guest Comment: Angela Plott: "Our industry supported the provision as a policy but asked that, when the regulations were proposed, sufficient time be allotted to allow for the public to understand the new rules and for the industry to be able to communicate the new requirements to their customers. The State Department proposes that the phase-in approach gives sufficient notice to industry and travelers. In reality, it is not sufficient time, and the proposed phase-in approach unfairly affects US travel to Bermuda, the Caribbean, and Central and South America as compared to Mexico and Canada. Here are several reasons: the final rule is unlikely to be finalized until the fall of 2005, and it will not allow sufficient time for cruise passengers to get a passport or for the industry to promote the new requirements. The cruise industry had over 10 million total passengers in 2004, and

over 8 million were North Americans. The Caribbean is the most heavily visited cruise destination, approximately 45.1 percent of all cruises. Currently, it is estimated that only 20 percent or less of all Americans have US passports. Travel agents are currently booking cruises to the Caribbean for 2006. How will those passengers be treated? If the State Department's proposed phase-in dates are implemented, from the fall of 2005 until January 1, 2007 it will be more expensive for US citizens to visit Bermuda, the Caribbean, and Central and South America, as they will have to obtain a passport, which currently costs \$100. Or, if they wish to travel within the Western Hemisphere, they will choose Mexico or

*Continued on page 4*

### PHOTO OF THE DAY



Venezuela's Hugo Chavez ended joint military exchanges with the United States and, separately, has arrested US citizens it suspects of spying. See related story on page 2.

*Photo: Venezuelan embassy in the US.*

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## NEWS BRIEFS

**Brazil's Globo Restructures \$1.23 Billion in Debt**

Brazil's **Organizacoes Globo** reached agreement with bondholders to restructure \$1.23 billion of debt, completing the biggest corporate bond restructuring in Brazilian history, Bloomberg News reported. More than 80 percent of the holders of \$981 million of bonds agreed to accept cash and bonds for defaulted debt. Investors holding the remaining debt agreed to a similar swap in March. The accord, under negotiation since 2002, lets Globo avoid selling television stations given as collateral for the debt. The cash payout will result in investors accepting a 30 to 50 percent cut in the face value of their bonds.

Source: Bloomberg News.

**Telmex Opens \$25 Million Call Center in Argentina**

Mexican telecommunications giant **Telefonos de Mexico SA** has opened a \$25 million international customer service center in Argentina, Dow Jones reported Friday. According to media reports the new center will cover post-sale service needs for Telmex's 1,200 largest contracts in the US and Latin America, including Brazil and Mexico.

Source: Cellular-News, Dow Jones.

**LAN Airlines and Western Union in Payment Arrangement**

Chile's **LAN Airlines** and **Western Union Financial Services** say that travelers between the US and Latin America can now buy tickets in cash via the carrier's toll-free reservation system. Travel from the US to South America has one of the highest percentage growth rates worldwide, according to the companies.

Source: company release.

## Political News

**Ecuador's President Flees to Brazil; OAS Sending Mission to Quito**

Ecuador's deposed president left Quito for exile in Brazil on Sunday, escaping for the time being warrants for his arrest after the interim government guaranteed his safe departure. Lucio Gutierrez, 48, was ousted from power by the Andean nation's congress on April 20 amid political turmoil and street protests. A military aircraft conveyed him to Brazil under a political asylum arrangement. Former Vice President Alfredo Palacio today has a tenuous grip on power, amid fractious political support at home, and speculation that the Organization of American States (OAS) may challenge the constitutionality of Mr. Gutierrez's ouster. *The Miami Herald* reported Sunday that the OAS has decided to send a high-level mission to Ecuador "to

according to Reuters. [See related Q&A in last Friday's *Latin America Advisor*.] Economist Michael Gavin, the head of Latin America research at UBS and a member of the *Advisor* board, wrote in a note this weekend that he thinks the Ecuadorean example "should be read as a cautionary note to investors about the so-called 'new' Latin American Left." Gavin says investors ought to keep in mind whether future governments' market-friendly policies might leave the government without enough political support to govern effectively and stay in power. A headline in the *New York Times* yesterday read, "Fiscal Growth in Latin Lands Fails to Fill Social Needs."

**Mexico City: More than a Million Marchers Turn Out for AMLO**

More than a million Mexico City residents turned out yesterday for a silent protest in support of their mayor, Andres Manuel

*Amb. Luigi Einaudi will be leading an OAS mission to Ecuador.*

work with officials of that country and with all sectors of Ecuadorian society in their effort to strengthen democracy." Amb. Luigi Einaudi, who is acting secretary general of the OAS and a former senior fellow of the Inter-American Dialogue, will reportedly lead the mission "within days." Speaking April 22 at an OAS Special Permanent Council meeting, the US representative to the OAS, John Maisto, said the United States deplors "the deterioration of constitutionality and democratic institutions in Ecuador" that culminated in Gutierrez's removal from office by a unanimous vote of the Ecuadorian Congress, according to a State Department release. Secretary of State Condoleezza Rice has called on all Ecuadoreans to reject violence and to respect the rule of law. International markets have reacted negatively to the political uncertainty. So far this month Ecuador's debt has lost 10.5 percent in total returns, the biggest loser among emerging market bonds this year,

Lopez Obrador. Lopez Obrador is awaiting trial by the country's attorney general's office of failing to comply with a court order to halt the construction of a road, a case that would prevent him from running for president next year. No violence was reported during the march, which took place in the city's historic center. Mexico City's public security department estimated 1.2 million people participated in the protest, according to Bloomberg News. If convicted, Lopez Obrador could face up to eight years in prison and be barred from holding any job in public service. [Editor's note: see related Q&A in the April 6, 2005 issue of the *Latin America Advisor*.]

**Venezuela Ends US Military Ops; Arrests Woman for Spying**

Venezuela has ended joint military operations and exchanges with the United States and has arrested US citizens it suspects of spying. President Hugo Chavez, who has of

late accused the US of planning to invade his country, said on Sunday he has ordered a handful of US military instructors out of the oil-rich South American nation, Reuters reported. President Chavez said they were trying to foment unrest in the barracks against him. Chavez also said that a woman "linked to the US military" had been arrested while photographing a military installation, and several US citizens were also arrested for taking pictures of a refinery, according to the Associated Press. The US embassy on Friday said that five US Army, Air Force and Navy officers had received orders to end their missions in Venezuela, according to Reuters, although no formal US government statement on Chavez' Sunday comments was available by press time.

## Economic News

### Argentina's Economy Softening Slightly in Q1

Argentina's economy softened somewhat in the first quarter of 2005, although growth continues at a steady clip for the year. The country's measure of broad economic activity slowed to 0.1 percent month over month in February, according to New York-based **JP Morgan Chase & Co.** Thus far the softening isn't dramatic, and the New York investment bank cited a recent survey of managers as reason for some optimism. The country's "business sentiment," as measured by a FIEL management survey, moved up last month over February, with most indicators moving up a percentage point or two. Industrial production as measured by INDEC gained 5.9 percent in March over a year ago and 4.1 percent month over month, a "healthy rebound in the industrial sector which will support economic activity," JP Morgan said in a research note Friday. The investment bank revised its annual economic growth forecast for Argentina downward from 7 percent to 6 percent recently. The prospect of energy rationing and rising inflation in Argentina, which would hurt consumer consumption, could work against economic growth in the coming months, JP Morgan Chase said.

## The Dialogue Continues

*A continuation of the April 22, 2005 Q&A*

**Q** **Lucio Gutierrez on Wednesday became the third Ecuadorean president to be forced out of office in the past eight years after Congress voted in favor of his removal and the military withdrew its support for the embattled leader. What/who is to blame for the latest political crisis in Ecuador? What are the prospects for future political stability? What impact do you expect the current crisis to have on Ecuador's economy?**

**A** **Guest Comment: Morgan Harting:** "The current political crisis is the result of a fundamental governability problem in Ecuador. Power had been balanced tenuously between the government, the opposition Social Christian Party, exiled former president Bucaram, presidential contender Alvaro Noboa, and the armed forces. Following an impeachment attempt last fall, President Gutierrez allied with Bucaram, allowing him to return from exile in Panama by dismissing the Supreme Court which was holding up Bucaram's return. As Wednesday's events confirm, these moves proved to push Gutierrez's hold on power beyond a tipping point. Like his predecessor, President Palacio lacks a signifi-

cant party base in Congress and will likely struggle to govern and to complete his mandate through 2006. He will enjoy some immediate credibility with protesters for having broken ranks with Gutierrez, but if he is to fend off calls for immediate elections he will have to move quickly to satisfy the demands of both protesters and established party leaders. That popular Guayaquil Mayor and protest leader Jaime Nebot has extended support for Palacio should help his chances in the immediate future, but it is too soon to tell whether this will be enough or how long it will last. Social unrest will certainly have at least a passing impact on economic activity. Fitch is expecting growth of between 4 percent and 5 percent this year, but could revise this figure down if instability is protracted, particularly if this occurs together with substantial declines in oil prices. According to official data, bank deposits have not come under pressure thus far, but in the event that they did, this could also cause Fitch to make downward adjustments in its economic outlook, too."

**Morgan Harting** is Lead Sovereign Analyst for Ecuador at Fitch Ratings..

## Company News

### Ericsson's Q1 Sales Up 24 Percent in Latin America

Sweden's **LM Ericsson Telefon**, the telecoms equipment company, has reported a jump in first quarter sales of 24 percent year over year in Latin America. The better-than-expected sales were led by Brazil and Mexico, as profits at the company overall rose 73 percent. By comparison, in

the Asia-Pacific region sales grew 4 percent. The company credited strong GSM sales in the region for the success. But Ericsson said that the strong sales data won't last for long. "2004 was a strong growth year in terms of mobile infrastructure investments following a pent up demand. For 2005 we maintain our view that the global mobile systems market will show slight growth compared to 2004," the company said in its quarterly report to investors, released Friday.

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

Canada because of the cost and time of obtaining a passport."

**A Guest Comment: Christiana Halsey:** "By limiting the types of documents that an individual can present for entry into the US, this new requirement will help to facilitate travel because Customs and Border Protection officers will be able to quickly identify a person's identity and citizenship through standardized documentation. Individuals traveling within the Western Hemisphere are encouraged to obtain a passport, but the government is looking at alternatives to passports for certain environments such as the land border. The government expects that acceptable documents must establish the citizenship and identity of the bearer through electronic data verification and will include significant security features. Ultimately, all documents are expected to include biometrics that can be used to authenticate the document and verify identity. The new statute specifically mandates that the agencies consider border communities. We recognize the implications this might have for industry, business and the general public, as well as our neighboring countries, and they are important partners in this initiative. The advanced notice of proposed rule making will allow these affected publics to voice concern and provide ideas for alternate documents."

**A Board Comment: Tony Smith:** "The Western Hemisphere Travel Initiative is unrealistic. The lines are already long and unwieldy. Increasing the standard of identification is unlikely to really improve security. The only programs that will realistically improve security are some sort of integration of the Hemisphere, including guest worker statutes, regularization, or similar reforms. There does need to be an improved border security system, but ignoring millions of undocumented workers and people desperate to gain access to the United States is like Prohibition—in the end, it doesn't work."

The consular matricular cards that Mexico and some other countries are issuing probably are more realistic than passports, but the United States has opposed these. Additional paper is too easy to falsify or otherwise obtain. In the end, it may make people feel more secure, but it doesn't accomplish the goal of decreasing the porous nature of the borders in the Hemisphere."

**A Guest Comment: Jon French:** "Mexican travelers to the US already need a passport in order to obtain their visa to enter. There will probably continue to be a need for flexibility at US-Mexican land border crossing points where a US border crossing card/visa is utilized because of the high volume of daily crossings. Flexibility and security is feasible with a stronger focus on North American perimeter security, *i.e.*, with greater vigilance and control of the perimeter by sea/air and along the currently porous Mexican-Guatemalan land border. There has been increasing concern in Mexico regarding this land border with Guatemala, particularly the recent influx of the criminal gang Mara Salvatrucha that preys on illegal immigrants. Although the breadth of this border is comparatively short with the US-Mexican border, with few viable border crossings, significantly more resources must be deployed to bring Guatemala's border area under government control. The US government can facilitate this effort by helping the Mexican government with financial resources and high-technology."

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**Christiana Halsey** is Assistant Commissioner, Office of Public Affairs, U.S. Customs and Border Protection.

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