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Latin America Advisor

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Featured Q&A *With Our Board of Advisors*

Q US-Mexico tensions have risen in the past week amid plans—later scrapped—by Mexico to hand out border maps to would-be illegal migrants and US allegations of border incursions by the Mexican military. What accounts for the increasing level of political noise on border issues and how is it affecting overall US-Mexico relations?

A Guest Comment: Andrew Selee: "Border politics is always contentious. Migration, drugs, environmental problems, and the myriad other issues at the border that get the attention of Washington and Mexico City (which are not always, of course, the same issues that matter to those who live at the border) are all complicated and potentially explosive. Overall, the Bush and Fox administrations have done a good job in recent years at avoiding excessive political tensions around these issues and managing them through increased cooperation. What has changed in recent weeks are the political dynamics around border issues. In the US, anti-immigration activists succeeded in creating a broad (but not deep) network and pressuring the House of Representatives to pass get-tough legislation on border enforcement. While the legislation ignores basic realities—you cannot enforce immigration laws without first reforming them to conform to the law of supply and demand—it did manage to force the Bush administration, already facing a crisis of public confidence, into a corner and limit its ability to deal with border issues creatively. A sizable contingent of the Republican Party (and a smaller group in the Democratic Party) now see get-tough border policies as a political tool for the 2006 midterm elections. At the same time, the presidential and congressional campaign in Mexico is heating up. Every candidate and party feels obliged to express get-tough views on dealing with the United States. This is forcing the Fox administration into its own corner, and limiting their margin for creative engagement with the United States as well. This year may prove

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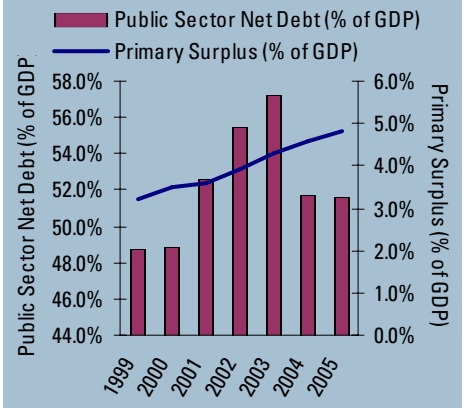
CHART OF THE DAY

Brazil: Primary Surplus and Public Sector Net Debt
1999-2005



See related news brief on page 2.

Source: Credit Suisse, Brazilian Central Bank

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NEWS BRIEFS

Brazilian Primary Surplus Widens to 93.5 Billion Reais

Brazil's primary surplus increased to 93.5 billion reais ($US 42.1 billion) in 2005 from 81.1 billion reais in 2004, the Central Bank said Monday. Last year's primary surplus, which excludes interest payments, was equivalent to 4.84 percent of GDP, well above the Bank's target of 4.25 percent. Including interest payments, Brazil posted a budget deficit of 63.6 billion in 2005, or 3.29 percent of GDP, wider than the deficit of 2.67 percent of GDP it recorded in 2004.

Source: Central Bank.

Lucia Pinochet Free on Bail

Lucia Pinochet, the eldest daughter of former Chilean dictator Augusto Pinochet, was released from jail on $6,000 bail on Monday, two days after returning to Chile to face charges of tax evasion and document fraud. Pinochet fled Chile on January 22 after authorities served her, her mother, two sisters, and a brother a subpoena to appear in court the following day. Her mother and siblings appeared in court and were granted bail. Augusto Pinochet was charged last year with evading taxes on an estimated $27 million hidden in foreign accounts.

Source: Reuters.

EIU Survey: Rio, Sao Paulo Becoming More Expensive

Rio de Janeiro and Sao Paulo have become more expensive cities to live in, according to a survey published this morning by the Economist Intelligence Unit. The two Brazilian cities moved up 22 places to jointly occupy the 87th spot. Higher consumer prices and a 25 percent appreciation of Brazil's currency, the real, drove the increase.

Source: Reuters.

Political News

Chile's Bachelet Unveils Cabinet, Gives Half of Posts to Women

Chilean President-elect Michelle Bachelet on Monday announced the members of her cabinet, giving half the posts to women as she had promised to do during her campaign, the Associated Press reported. Bachelet, the first woman ever to be elected president of the South American nation, nominated women for 10 of the 20 cabinet posts, including the naming of women to head the defense, economy, mining, and planning ministries. She also named a woman as her chief of staff. In addition, Bachelet appointed fiscally conservative and US-educated economist Andres Velasco to the key post of finance minister. In a research note published this morning, **Credit Suisse** said it expected Velasco "to maintain the main macro principles that have fostered Chile's development over the past several years." Bachelet said the "cabinet is in line with the major challenges we have ahead ... These are people with considerable intellectual, professional and political prestige." Other notable appointments included Senator Alejandro Foxley as minister of foreign relations and Andres Zaldivar as interior minister. In addition, Bachelet, who will be inaugurated on March 11 after winning a January 15 run-off vote, said that as soon as she takes office she will ask the legislature to create two new ministries for public security and the environment. The nominations maintained a clear balance among the parties making up the ruling Concertacion coalition, according to the AP. It includes seven Christian Democrats, nine from the two socialist groups, three independents and one from the Social Democratic party.

> "These [cabinet appointees] are people with considerable intellectual, professional and political prestige."
>
> ***- Michelle Bachelet***

Chavez Warns US Embassy Against Spying on His Government

Venezuelan President Hugo Chavez warned the US ambassador to his country against spying, saying his government had infiltrated the embassy, Reuters reported. "I recommend to the US embassy that they stop spying, we have you infiltrated, ambassador. Don't move around too much because we are watching you," Chavez was quoted as saying. Last week, Venezuela said it had uncovered a spy ring involving several low-ranking Venezuelan military officers who were spying for the US. The Chavez government accused US embassy officials of asking military officers for state secrets and threatened to arrest any US embassy official caught spying. US embassy representatives say they have not been contacted on the issue and have no details on any charges, according to Reuters. When asked about the charges last week, US State Department spokesman Adam Ereli said he had no comment. Military authorities have so far not confirmed any arrests in the alleged passing of secrets, or said how many military officers are involved in the case. Chavez has repeatedly accused the US of plotting against his government, charges which the US and US Ambassador to Venezuela William Brownfield have denied. The US has in turn accused Chavez of seeking to sow instability in Latin America.

Honduran Government in Talks with Gang to End Violence

The new government of Honduran President Manuel Zelaya has launched talks with one of the country's violent street gangs in hopes of persuading it to end violence, Reuters reported on Monday, citing Security Minister Alvaro

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Romero. "One of these gangs has been in touch with me," Romero was quoted as saying. "We have been talking for one or two weeks and we are going to continue in this vein." The security minister did not say with which of Honduras' two main gangs—Mara Salvatrucha or Mara 18—the government was holding talks. He said a Catholic bishop and an evangelical minister will participate in the negotiations. Zelaya, who was inaugurated on Friday, has promised to crack down on gangs, whose membership is estimated to number some 30,000, a message which Romero sought to reinforce. "We cannot be naive in this respect," he said. "Those that have gone beyond the boundary of being able to reform will have to be tracked down and sent to jail." The previous government of President Ricardo Maduro attempted to negotiate with one of the two gangs in 2004, but the talks failed after two of the gang's leaders were killed.

Featured Q&A

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to be a difficult year for US-Mexico cooperation unless cooler and more reasoned minds prevail on both sides of the border."

A Board Comment: Andrés Rozental: "Relations between Mexico and the United States have to be seen on two levels: the factual reality of close, unprecedented cooperative understandings on a host of issues that affect both countries, and the political 'noise' that has proliferated of late on the immigration question and other sensitive items on the bilateral agenda. The offensive debate and passage of the Sensenbrenner bill, which poisons public opinion on both sides of the border; the growing frequency of accusations that law enforcement or military personnel have crossed the border in pursuit of criminals; the discovery last week of a sophisticated smuggling tunnel between Tijuana and Mesa de Otay; US Ambassador Garza's insensitive behavior in conducting diplomatic exchanges through the media rather than discreetly with the Mexican government; as well as the incident in which the Human Rights Commission of Mexico—an autonomous body not under government authority—decided to first announce, and then cancel, a plan to provide undocumented migrants with maps to aid them in choosing the least dangerous crossing routes, have all contributed to the nasty rhetoric that has characterized the political discourse between both countries in the last few weeks. Although these incidents are real, they still are only a very small part of the daily interaction between Mexico and the United States and it would be a pity if they became the bellwether for an otherwise extremely close and friendly official relationship that has been built up over the past five years."

A Guest Comment: Jon French: "First of all, it appears from the Mexican press coverage of the alleged Mexican military incursion across the US border that it was more likely Mexican narcotraffickers moving their product to their principal market. It is also apparent that both countries are utilizing this and other periodic border incidents to advance their own political agendas. The United States appears to be utilizing these incidents to pressure the Mexican government for better border security and help stem the flow of illegal migrants to the US as part of its legitimate concerns over border security, as well as various initia-

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Company News

India's ONGC to Acquire 30 Percent of ExxonMobil's Brazilian Unit

India's state-owned **Oil and Natural Gas Corp.** (ONGC) said Monday it would buy **ExxonMobil Corp.**'s 30 percent stake in a Brazilian oil project in a deal one company source said was worth as much as $1.4 billion, according to Reuters. "Our offer has been accepted by ExxonMobil and we are now working out the nitty-gritties of the deal," an ONGC spokesman said. He said ONGC was awaiting formal approval from the Brazilian government and the company expects the deal to be finalized in a couple of weeks. Last month, the Indian government cleared ONGC's investment of up to $820 million for the acquisition. The government had said the purchase would include paying $330 million to buy ExxonMobil's Brazilian subsidiary and $490 million as cash calls for its share of the project's cost, appraisal, and further exploration. ONGC has also begun negotiations with ExxonMobil's partners in the BC-10 offshore block, **Royal Dutch Shell** and Brazilian state company **Petrobras**. The block, one of two offshore blocks in Brazil's oil-rich Campos Basin in which ExxonMobil holds an interest, has possible reserves of 400 million barrels. ONGC's acquisition of the BC-10 block, known as "Project Sugar Loaf," would be the Indian firm's second-largest deal after a $2.7 billion investment in Russia's Sakhalin-I project five years ago. ONGC, India's most valuable oil company, on Monday reported a better-than-expected 11 percent rise in October-December profit last year.

Bancolombia Posts 2005 Profit of 737 Billion Pesos

Bancolombia, Colombia's largest bank in terms of assets, on Monday reported a non-consolidated net profit of 737.4 billion pesos ($US 325 million) for 2005. In a press release, Bancolombia said its 2005 net income figure incorporated the effect from its July 2005 merger with mortgage lender **Conavi** and finance company **Corfinsura**. Net interest earnings last year totaled 1.654 trillion pesos, while its net worth totaled 3.22 trillion pesos. The Medellin-based bank is controlled by Colombian conglomerate **Grupo Empresarial Antioqueno**. In a press release, Bancolombia—citing data from Colombia's banking association, Asobancaria—said it had 17.7 percent of total deposits in Colombia's financial system, as well as 20.8 percent of net loans, 18.4 percent of savings accounts, 19.0 percent of checking accounts and 14.6 per-

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Featured Q&A

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tives before the US Congress over border security and immigration reform. In contrast, the Mexican government appears to be utilizing these same incidents to pressure the US on substantive immigration reform, while opposing US initiatives to wall the border. Periodic border incidents will continue, as it is a fact of life with a long land border between the two countries, and with the continuing demand in the US both for illicit Mexican drugs and labor. Substantive immigration reform could stem the flow of illegal migrants by satisfying the US labor pool demand with legal temporary workers. The flow of illegal migrants should be effectively discouraged if there are no jobs for them in the US. This reform could then facilitate the focus of law enforcement authorities on both sides of the border on counterterrorism and counternarcotics trafficking.

> "Periodic border incidents will continue, as it is a fact of life with a long land border between the two countries, and with the continuing demand in the US both for illicit Mexican drugs and labor."
>
> ***- Jon French***

Guest Comment: Tapen Sinha: "It is clear that the more political noise is being made in Washington and not in Mexico City. The reason is clear. It is an election year in the United States. Voters are not sympathetic to illegal migration. Hence, both the Democrats and the Republicans are doing everything possible to show the voters that they are against illegal immigration. This explains why there is broad-based support in Congress for the construction of the wall along the border. A separate matter has arisen about apparent border incursions by men in Mexican military uniform to escort drug carriers. What is not clear is whether these people actually belong to the Mexican military or are pretending to be Mexican military. The facts are somewhat confusing. Mexican politicians of all stripes have denounced the construction of the wall (comparing it to the Berlin Wall). Given that Mexico is willingly sending these illegal migrants to the United States, this position about the wall is full of contradictions. However, supporting the position against the wall is very popular in Mexico. This is not surprising because one in every five Mexicans has some family member on the other side of the border. Given that 2006 is also an election year in Mexico, politicians of all stripes have denounced the wall. The candidate for the PRD, Andres Manuel Lopez Obrador, has gone one step further. He suggested that if he becomes president he will use all the Mexican consulates in the US to help illegal Mexican migrants."

Andrew Selee *is Director of the Mexico Institute at the Woodrow Wilson International Center for Scholars.*

Andrés Rozental *is a member of the* Advisor *board and President of the Mexican Council on Foreign Relations.*

Jon French *is Managing Director of IPSA International de Mexico.*

Tapen Sinha *is ING Comercial America Chair and Professor of Risk Management at Instituto Tecnologico Autonomo de Monterrey.*

Correction

Due to an editing error, Juan Manuel Santos was mistakenly identified in a Q&A comment by Fernando Cepeda Ulloa in yesterday's *Advisor* as the vice president of Colombia. In fact, Santos is coordinator of the Partido de la U, a party which supports Colombian President Alvaro Uribe.

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