

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Brazil's political scene is heating up, with parties and candidates moving to position themselves ahead of presidential and legislative elections in October. What major political trends do you see taking shape over the next nine months? Will Brazil's economy carry President Luiz Inacio "Lula" da Silva and his allies to victory? Should investors be nervous about an election-year lapse in fiscal and economic discipline by the Lula government?

A **Board Comment: Donna Hrinak:** "Although much has changed in Brazil since the last national elections in 2002, one thing remains the same: it is far too early to predict in February who will win in October. Decisions important to party strategy—such as the end of *verticalizacao*, which limited the formation of coalitions—are still being taken. Still, some campaign issues—and non-issues—can be identified. Lula's economic record is a major achievement of his administration, and he will do nothing to jeopardize it in the run-up to elections. Investors should rest easy on this score. Competing with the economy as a key issue will be corruption, which few would have said a year ago would play a major role in this campaign. Polls show clearly the electorate's disappointment that the PT government has turned out to be not part of a solution, but another part of the problem. Not so obvious is whether the opposition can take advantage of the vari-

ous 'scandals' that have touched elements of all major parties. The days of 'I steal, but I deliver' are fast ending in Brazil, as the voting public increasingly believes it deserves both clean and competent government."

A **Guest Comment: David Fleischer:** "In February, Brazilian politics and the 2006 campaign are beginning to heat up before the Carnival recess at the end of the month. A recent Ibope poll conducted in mid-January showed that President Lula has once again become a 'viable' candidate for

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PHOTO OF THE DAY



US President George W. Bush warned against the dangers of isolationism in his State of the Union address to Congress last night. See excerpts from the speech on page 3.

Photo: White House.

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NEWS BRIEFS

First Two Out of Ten F-16 Fighter Jets Delivered to Chile

Chile on Tuesday received two US-made F-16 fighter jets, the first of 10 ordered by the South American nation as part of a major military upgrade. In a bid to assuage fears by neighboring countries, Chilean President Ricardo Lagos insisted that his country is not altering the region's military balance. "What we are doing is just replacing material that has completed its useful life," Lagos said at a reception ceremony for the first two planes at a military airport near Santiago.

Source: Associated Press.

More Colombian Paramilitary Fighters Hand Over Weapons

Thousands of Colombian paramilitary fighters turned over more than 1,000 weapons to the government on Tuesday in one of the largest disarmament ceremonies in the country to date. Yesterday's demobilization brought to over 20,100 the number of paramilitary combatants who have accepted the government's peace offer, said Colombia's high commissioner for peace, Luis Carlos Restrepo. The remaining few thousand fighters are expected to disband in coming weeks.

Source: Associated Press.

Guatemala Helps Boost TECO Energy's Fourth-Quarter Earnings

Florida utility **TECO Energy** on Tuesday reported a fourth-quarter profit of \$52 million, a reversal from a loss of \$487.6 million during the year-earlier period, partly due to the return of profits at its operations in Guatemala. **TECO Guatemala** posted a fourth-quarter profit of \$7 million, versus a loss of \$3.6 million a year ago.

Source: company statement.

Political News

Chilean Judge Interrogates Fujimori in Extradition Case

Chilean Supreme Court Judge Orlando Alvarez on Tuesday questioned jailed Alberto Fujimori as part of a process to determine whether Chile will extradite the former Peruvian president to face human rights and corruption charges in Peru, Reuters reported. Chilean court spokesman Miguel Gonzales said Fujimori was questioned for four hours yesterday in what was "the first of several interrogations." Last month, the Peruvian government formally requested the extradition of

A Chilean court spokesman said Fujimori was questioned for four hours yesterday in what was "the first of several interrogations."

Fujimori, who was arrested in Chile in November after his unexpected arrival in Santiago from Japan, has said his return to the region is part of a plan to launch a bid for the Peruvian presidency. However, he has been banned from running for president again in Peru until 2011. Peruvians will vote in April on a successor to President Alejandro Toledo. Alvarez must examine 12 boxes of evidence against the former leader before recommending for or against extradition to Peru, according to Peruvian daily *Peru21*.

Brazilian Senate Panel Recommends Indictments for Bank Head, Others

A Brazilian Senate commission on Tuesday recommended indictments against the president of Brazil's second-largest bank and 33 others over alleged contract fraud linked to a suspected illegal financing scheme involving the ruling Workers' Party (PT), Reuters reported. The commission will ask Brazil's public prosecutor to indict Jorge Mattoso, president of state-owned **Caixa Economica Federal** (CEF), over irregularities in con-

tracts between CEF and US-based "gaming technology" company **Gtech**, which ran the national lottery for the bank. The irregularities included overpricing and "strong indications of bribes paid ... to renew the contract in 2003," according to Reuters. In addition, Emilio Carazzai and Sergio Cutolo, who served as CEF presidents under the 1995-2002 government of former President Fernando Henrique Cardoso, are also accused of negligence and fraud. Both CEF and Gtech deny any wrongdoing. The senate commission's recommendation is the latest in a string of developments since June, when a scandal erupted over allegations that the PT bribed lawmakers in exchange for votes. The scandal, which grew to include accusations of illegal campaign financing by the PT, has taken a toll on the popularity of Brazilian President Luiz Inacio "Lula" da Silva even though he has not been directly implicated.

Economic News

Mexico's 2005 Budget Deficit Shrinks to 0.09 Percent of GDP

Mexico's budget deficit shrunk last year to 7.5 billion pesos (\$US 705 million), the smallest since 1996 as record oil prices boosted revenue from energy exports, the finance ministry said Tuesday, according to Bloomberg News. The deficit amounted to 0.09 percent of Mexico's gross domestic product, the finance ministry said in a statement, well below the 0.2 percent target of 2005 GDP approved by Congress. State-owned oil company **Petroleos Mexicanos** (Pemex) exported oil at an average price of \$42.65 a barrel, contributing to the economy's 3 percent growth for the year and providing the government with unanticipated revenue. Mexico's 2005 revenue rose 5.8 percent to 1.948 trillion pesos, 167 billion pesos above the budget forecast. Taxes and royalties from Pemex accounted for 37 percent of revenues last year. Mexico gave 66 billion pesos of oil revenue to Pemex and local governments to invest. The rest was used to cut the deficit, provide relief after natural disasters, increase spending in government agencies, and contribute to an oil

fund. Spending last year climbed to 1.953 trillion pesos, a 4.8 percent increase from 2004 after discounting inflation, the ministry said. Alejandro Werner, chief economist for the finance ministry, said Mexico's Congress approved a balanced budget for 2006 and it could come in as surplus if oil prices remain high. Analysts say Mexico's growth is partially dependent on continued high oil prices, and the absence of key structural reforms of the nation's tax collection, pension systems and implementation of social programs will remain a barrier to high growth. Prospects for Congress passing reforms in the run-up to July's presidential election are slim, according to observers.

Company News

Ternium Raises \$497 Million in IPO

Ternium, Latin America's second-biggest steelmaker, raised \$496.6 million in an initial public offering Tuesday, Bloomberg News reported. The company, owned by Buenos Aires-based **Techint**, sold 24,844,720 American depository receipts, or 12 percent of a total of about 2.06 billion shares outstanding. The shares sold for \$20 each, putting a market value of \$4.12 billion on Ternium. The ADRs will begin trading on the **New York Stock Exchange** today. According to Reuters, the company plans to use the proceeds from the IPO to pay down debt. The Luxembourg-based Ternium, which produces steel slabs for the automotive and appliance industries, was created last year when Techint bought controlling stakes in Argentina's **Siderar**, Mexico's **Hylsamex**, and Venezuela's **Sidor**, and combined them into a single firm. The Ternium IPO mirrors Techint's strategy with another of its holdings, **Tenaris**, the world's biggest maker of seamless steel pipes for energy companies, according to Bloomberg News. Shares of Tenaris, which Techint created by merging Italy's **Dalmine**, **Tubos de Acero de Mexico**, and Argentina's **Siderca Saic**, have more than tripled in the past year amid record oil prices that spurred more drilling and exploration. Tenaris is also headquartered in Luxembourg.

Bush Warns Against Isolationism in State of the Union Speech

Editor's note: in his State of the Union address last night, US President George W. Bush dedicated more than half of his speech to foreign policy—warning against the dangers of isolationism—but made no direct reference to Latin America. However, many of the issues Bush raised in his speech—trade, immigration, drug trafficking, energy—were sure to be heard in the region. Below are some excerpts from the address.

Dangers of Isolationism

"In a complex and challenging time, the road of isolationism and protectionism may seem broad and inviting, yet it ends in danger and decline. The only way to protect our people, the only way to secure the peace, the only way to control our destiny is by our leadership."



"Abroad, our nation is committed to an historic, long-term goal: We seek the end of tyranny in our world."

Bush
Photo: White House.

Showing Compassion Abroad

"To overcome dangers in our world, we must also take the offensive by encouraging economic progress and fighting disease and spreading hope in hopeless lands ... We also show compassion abroad because regions overwhelmed by poverty, corruption and despair are sources of terrorism and organized crime and human trafficking and the drug trade."

US Competitiveness: Trade, Immigration, and Energy

"Keeping America competitive requires us to open more markets for all that Americans make and grow. One out of every five factory jobs in America is related to global trade, and we want people everywhere to buy American. With open markets and a level playing field, no one can out-produce or out-compete the American worker."

"Keeping America competitive requires an immigration system that upholds our laws, reflects our values and serves the interests of our economy. Our nation needs orderly and secure borders. To meet this goal, we must have stronger immigration enforcement and border protection. And we must have a rational, humane guest worker program that rejects amnesty, allows temporary jobs for people who seek them legally, and reduces smuggling and crime at the border."

"Keeping America competitive requires affordable energy. And here we have a serious problem: America is addicted to oil, which is often imported from unstable parts of the world."

"We will increase our research in better batteries for hybrid and electric cars and in pollution-free cars that run on hydrogen. We will also fund additional research in cutting-edge methods of producing ethanol, not just from corn but from wood chips and stalks or switch grass. Our goal is to make this new kind of ethanol practical and competitive within six years."

Source: Washington Post transcript.

Featured Q&A*Continued from page 1*

reelection with: 1) a 15-point inversion in voter evaluations of Lula's performance as president; 2) a 10-point turnaround in the simulation for the first-round election in October 2006 (with Lula topping Serra 35 percent to 31 percent); and 3) a reduction in the pro-Serra spread in the second-round simulation from 13 to three points. Apparently, by constitutional amendment, Congress will eliminate the verticalization of presidential and state party coalitions in 2006. This norm was imposed by the TSE (election court) in March 2002 to favor the Serra candidacy. This means that in 2006 the parties will have total liberty to build pragmatic and diverse coalitions in the 27 states and that President Lula will be able to attract a larger number of parties into his reelection alliance. The PMDB will greatly benefit and should elect the largest number of governors (perhaps nine or 10), as well as the largest party delegations in the Chamber and Senate. Although the probability of Lula's reelection has increased, the prospects for the PT in the states are dismal. If lucky, Lula's party might elect 50 federal deputies (vs. 91 in 2002) and become the third-or fourth-largest party in the Chamber, plus perhaps only one governor and some four to five senators—a considerable decline from 2002 ... Economic performance in 2006 should become the strongest plank in Lula's platform. At the same time, the campaign should be quite aggressive, with Lula emphasizing the economic performance of his government versus that of Cardoso, with the opposition (PSDB-PFL) criticizing the moral and ethical 'lapse' of the PT in government ..."

A **Guest Comment: Chris Garman:** "This year's election will most likely funnel into a tight contest pitting President Luiz Inacio "Lula" da Silva against a candidate from the PSDB with little risk associated with a lapse in fiscal and economic discipline by the Lula government. Over the second half of 2005, political commentators in the Brazilian

press wrongly presumed that the vote-buying scandal that afflicted his government and the Workers Party (PT) would inevitably lead to an opposition victory in the 2006 presidential election. While Lula's approval ratings took a significant hit over the course of last year's scandal, he is in the process of making a significant comeback. The first polls of January already show that Lula's approval ratings have inched back to 50 percent to the extent both the media and public at large have experienced a 'scandal fatigue,' and the president has been able to call attention to a recovering economy. Over the course of the next few months it would not come as a surprise if Lula continues to increase his standing in the polls. Not only will the president benefit from an inactive Congress with the proximity of Carnival (and thus little negative news), but the government seems to be doing a better job of communicating a more coherent message to the public after months of internal bickering. Despite an expected comeback from Lula, however, this election will certainly be very tight. While Lula may benefit from a lull in the media's coverage of the scandal, the opposition will have plenty of opportunities to bring back issues surrounding the scandal during the campaign; thus, the opposition PSDB certainly remains in a competitive position. Lula's recovery in the polls, however, may very well have an impact on the PSDB's nomination. To the extent Lula looks to make a competitive run for re-election, the PSDB has greater incentives to choose the current mayor of Sao Paulo Jose Serra instead of Governor Geraldo Alckmin, given his higher standing in the polls ..."

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