

# Inter-American Dialogue

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

**Q** Peruvian President Alan Garcia last week appointed internationally acclaimed author and economist Hernando de Soto as his "personal representative" to deal with the US Congress on negotiations over the US-Peru free trade accord. Why did Garcia make the move, and was it a good decision? What could De Soto do that traditional government officials cannot?

**A** **Guest Comment: Augusto Alvarez:** "The assignment of Hernando de Soto was made—thanks to his singular network of contacts in the US and in many other places—to undertake the necessary steps for the ratification of the FTA [in the US]. Because of his connections, talent, and prestige, he is the most able Peruvian for the job. Nevertheless, it would be a mistake to think that his role will be limited to persuading members of the US Congress to vote in favor of the FTA. What appears to be his most important task is putting into practice the domestic agenda needed so that the benefits of the FTA can be fully taken advantage of and so that its scope is not limited to a few businesses. That would imply true structural reform in Peru, a radical transformation of its current foundations, which would include the elimination of barriers that prevent the majority of Peruvians from advancing, attracting investment, asking for credit, and in general, doing business, but also deep judicial, education, or health reforms, to just men-

tion a few, with the goal that the country be competitive globally. If this is done, de Soto would become, in practice, an informal 'superminister' with the task of designing and overseeing the implementation of the needed deep reforms, and along the way constructing a vision that the Alan Garcia government still does not have."

**A** **Guest Comment: Luis Zúñiga:** "De Soto undoubtedly has more advantages than traditional officials. He can move in the US Congress with greater ease than others. In addition, his closeness to Bill Clinton makes him a 'good card' for Democrats. Rescuing what President Garcia said about the FTA being for the poor, at Conveagro,

*Continued on page 4*

### PHOTO OF THE DAY



Support for leftist presidential candidate Rafael Correa is growing in Ecuador, according to a new poll. See story on page 3.

*Photo: campaign Web site.*

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## NEWS BRIEFS

**VW Workers in Mexico End Strike After Agreeing to Wage Deal**

**Volkswagen** reached a deal Wednesday with union leaders at the German automaker's Mexico plant, ending a five day-old strike, Reuters reported. Under the agreement, about 9,700 union workers at the Volkswagen plant in Puebla will receive a 4 percent wage increase and benefits worth another 1.5 percent. The union had originally asked for an 8.5 percent pay raise.

Production at the plant, which produces about 1,450 vehicles daily, was expected to resume yesterday afternoon.

**Economic Growth in Chile Slowed to 4.5 Percent in Second Quarter**

Chile's economy expanded 4.5 percent in the second quarter compared to the same three months a year ago, a slowdown from growth of 5.3 percent in the first quarter, the Central Bank said Wednesday. The second-quarter expansion was led by growth in the communications, electricity, gas, and water sectors, the Bank said. For the first six months of the year, the economy grew 4.9 percent from a year ago, it said.

**Brazilian Police Officer Given Long Prison Term for Massacre**

A Rio de Janeiro police officer was sentenced to 543 years in prison for the May 2005 massacre of 29 people in the poor outskirts of Rio, local daily *O Globo* reported. The officer was charged with 29 counts of murder, one attempted murder, and the formation of a gang. The case was seen as an important test of Brazil's ability to break what many say is a climate of impunity for police officers who commit crimes. Four other officers await sentencing for the brutal outburst last year.

## Economic News

**Argentina to Renew and Expand its Nuclear Power Program**

The government of Argentine President Nestor Kirchner on Wednesday announced plans to renew and expand its nuclear energy program. In a press release, the planning ministry said that under the eight-year, \$3.5 billion plan the government would complete construction—begun 25 years ago—of the Atucha II nuclear power plant by 2010, increase the life span of its existing Embalse plant by 25 years, undertake studies for the construction of a fourth plant, and renew enrichment of uranium, which was halted in the 1980s due to budget constraints. "When this government took office in 2003, the

the AP. Nuclear power has never gotten very far off the ground in Latin America, and some analysts say nuclear power is not only too expensive but also unnecessary, given the wealth of traditional energy sources in the region, such as water, oil, and natural gas. [Editor's see related Q&A in the March 14, 2006 issue of the weekly *Latin America Energy Advisor*].

**Colombia Expects to Get up to \$5 Billion in Sale of Ecopetrol Stake**

The Colombian government expects to take in as much as \$5 billion from the partial privatization of oil company **Ecopetrol**, National Hydrocarbon Agency President Armando Zamora said Wednesday, according to Bloomberg News. "With Ecopetrol's reserves and the type of infrastructure it has, one could talk

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“When this government took office in 2003, the nuclear energy sector was reactivating, ... Today we come to establish a strategic plan for the Argentine nuclear energy sector for the coming years.”

- Julio De Vido

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nuclear energy sector was reactivating," De Vido was quoted as saying by the Associated Press. "Today we come to establish a strategic plan for the Argentine nuclear energy sector for the coming years." The plan to renew and expand Argentina's nuclear energy program comes as the South American country faces an energy crunch amid growing demand and a lack of investment in the energy sector. The plan to restart uranium enrichment could raise eyebrows, especially amid international efforts to force Iran to curb its nuclear program, which the United States suspects includes efforts to make nuclear weapons. Enrichment of uranium is necessary to provide the fuel to operate nuclear plants, but enriched uranium can also be used to make nuclear weapons. Argentina and Brazil, which in May inaugurated a uranium enrichment plant to supply its nuclear power plants, have stressed that their nuclear programs have only peaceful purposes, according to

about between \$2 billion and \$5 billion" for the 20 percent stake, Zamora was quoted as saying. Last month, the government of President Alvaro Uribe announced it planned to sell up to 20 percent of Ecopetrol to "third-parties," including pension funds and labor groups. Analysts say private investment in Ecopetrol is necessary to halt a decline in production and to avert Colombia's becoming a net oil importer in just a few years. [Editor's note: see related Q&A in the August 9, 2006 issue of the weekly *Latin America Energy Advisor*.] Oil production in Colombia is currently at about 530,000 barrels per day (bpd), down from a peak of 820,000 barrels per day in 1999. Ecopetrol, Colombia's largest company, has about two-thirds of Colombia's 1.5 billion barrels in oil reserves. The government plans to send a bill to congress next month seeking authorization for the partial privatization of the company, according to Bloomberg News.

## Political News

### Presidential Election Poll: Support for Chavez Ally Growing in Ecuador

Popular support for a leftist presidential candidate in Ecuador who boasts of a close friendship with Venezuelan President Hugo Chavez has grown, according to a new poll released on Wednesday. The poll by Informe Confidencial, published in local daily *El Comercio*, found that support for Rafael Correa has risen three percentage points to 12 percent, with less than two months to go before Ecuador's



Rafael Correa

October 15 election, *Photo: campaign Web site.* Reuters reported. However, Correa still trails behind left-leaning frontrunner Leon Roldos, who saw his support drop one point to 26 percent. Backing for conservative Cynthia Viteri slipped three points to 15 percent. Correa, who has caused anxiety among investors because of his promises to increase state control over natural resources, hopes to make it to a November 26 second-round run-off, which will be needed if no candidate gets at least 50 percent of the vote in the first round. Correa openly declares himself a friend of Venezuela's Chavez, a fierce critic of the United States "empire," but has been careful to downplay Chavez's influence on his campaign, according to Reuters. In presidential elections this year in Mexico and Peru, alleged or real ties to Chavez have been key to the defeat of leftist candidates because of voters' concerns the Venezuelan leader might exercise too much influence.

## Company News

### Telmex Buys Colombian Cable TV Company Superview

**Telefonos de Mexico** (Telmex) has purchased Colombian cable television operator Superview Telecomunicaciones for \$40 million, Telmex spokesman Arturo Elias Ayub said Wednesday, according to

## The Dialogue Continues

*A continuation of the August 23, 2006 Q&A*

**Q** Preliminary gubernatorial election results in Mexico's southern state of Chiapas indicated a tight race Sunday between leftist candidate Juan Sabines of the PRD and Jose Antonio Aguilar Bodegas of the PRI. Will the winner of the race have the mandate needed to effectively govern and secure law and order in Chiapas, perhaps the most politically volatile state in the Mexican federation? What does the Chiapas race say about political trends and stability in Mexico nationally?

**A** Guest Comment: Adalberto Palma Gomez: "Once again a close call at election time for the electoral process in Mexico.

This time it is in Chiapas, a much shaken state since the Zapatista uprising 12 years ago. Is this a signal that the electoral system in Mexico requires an update that has been postponed for too long a time? It seems that finally the country has to face the fact that, given political trends, the system no longer is serving to accommodate the new realities of democratic processes. It is a system still composed of structural remnants from the authoritarian, pseudo-democratic times in which

room was always made to accommodate contrarians and dissidents with the hope of lessening confrontations. It seems that what the country now needs is to endorse a new culture where disclosure of conflicts of interest, ethical behavior, and accountability take precedent over political accommodation, maneuvering, and manipulation—a modern system with a second round election and limited campaign expenditures. Will citizens participating in the processes of this new system understand the challenge? That will be the question, which remains unanswered in the unresolved presidential election, and also in Chiapas and other elections to come."

**Adalberto Palma Gomez** is a Senior Partner at Aperture, S.C. in Mexico.

*Editor's note: Mexican electoral officials said Wednesday that final results of Chiapas governor's race will not be available until this weekend, according to Reuters.*

Reuters. Telmex paid \$270 per customer to acquire the Bogota-based Superview, which has about 150,000 subscribers, and provides residential cable television and Internet services. More financial information will be released in three to four weeks, a Telmex source who asked not to be named told the *Advisor*. Prior to its acquisition of Superview, Telmex had not entered Colombia's residential market for "triple-play" services—voice, video, and data—but serviced corporate clients through its **Telmex Colombia** subsidiary, which has offered telephony services for one year now, the Telmex source told the *Advisor*. "The Superview acquisition ... has two aims," the source said. "First of all, to

reach clients directly in their houses, and second, to advance toward triple-play to be able to offer this convergence of voice, data, and video-on-demand." Superview will be included in Telmex's consolidated financial statements in the fourth quarter of this year, according to Reuters. Outside of Mexico, where it is the biggest fixed-line operator, Telmex has operations in five Latin American countries: Argentina, Brazil, Chile, Colombia, and Peru. The subsidiary in Colombia brought in revenue of 43.056 billion pesos (\$US 18.65 million) in the second quarter this year, a 78 percent increase from the same period in 2005, according to Telmex's second-quarter earnings release.

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

which represents the majority of Peru's small- and medium-sized agricultural producers, we hope that de Soto's theoretical knowledge of the country's social problems and poverty translates into good actions. For that, Conveagro will not hesitate to provide the government and de Soto with the technical proposals to sustain the implementation of a domestic agenda that confronts the inevitable harm that the FTA will cause, especially in the agricultural sector. We are worried about the situation for sensitive products (rice, corn, oils, cotton, wheat, barley, potatoes, meat, dairy products, sugar cane), which cannot take on million-dollar US subsidies. That is why we want Hernando de Soto's job to be aimed not so much at seeking US ratification of the FTA but at designing a national strategy that responds to the situation in the country, with compensatory measures for all those affected and reasonable subsidies."

**A Guest Comment: Myles Frechette:** "Early press reports said President Garcia had asked Hernando de Soto to renegotiate the US-Peruvian FTA. That's not accurate. The next step for the FTA is approval by up or down vote in both houses of Congress. De Soto's mission is to persuade the Congress to approve the US-Peru FTA, either before the November elections or during the lame duck session. Democrats criticize labor conditions in Peru. Garcia's concern is that, if the Democrats win control of the House, Peru's FTA will have a tougher time being approved by the next Congress. Garcia's designate as ambassador to Washington is not yet in place. Hernando de Soto is a brilliant choice as Garcia's 'personal representative.' Not only is he a world renowned author and economist, but he believes in free market economics and he cares about the poor. He has written about how to integrate them into Peru's formal economy and how to give them access to credit. De Soto speaks superb English and is a riv-

eting speaker. He is respected by Democrats and is a friend of former President Clinton. In short, if any Peruvian can persuade reluctant Democrats in Congress to approve the FTA, it is de Soto."

**A Guest Comment: Eric Farnsworth:** "Hernando de Soto is an outstanding representative for Peru, and the president's decision to utilize his talents to promote the trade agreement is inspired. De Soto is internationally recognized as a true development expert, with a wide and diverse following both in Latin America and around the world. More importantly from the perspective of the task at hand, de Soto is one of only a handful of Latin Americans with whom many members of Congress who do not follow the region would be familiar, giving him a broad standing and a receptivity on the Hill that would normally not be accorded to those outside the government seeking to promote trade. He will therefore receive a hearing in Congress, which will otherwise be preoccupied with other priorities, including November elections. It is also important that President Garcia has signaled, through the de Soto appointment, that the trade agreement will be only one part of an overall development strategy for Peru. This is an important signal and one that congressional leaders will be particularly interested in hearing as they consider whether to approve the US-Peru FTA."

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**Augusto Alvarez** is Director of Peruvian newspaper Peru21.

**Luis Zúñiga** is President of the National Convention of Peruvian Agriculture (Conveagro).

**Myles Frechette** is a former US Ambassador to Colombia.

**Eric Farnsworth** is a Vice President at the Council of the Americas.

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