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Featured Q&A With Our Board of Advisors

Q Rafael Correa took office Monday as president of Ecuador, vowing to renegotiate the country's foreign debt and rewrite its Constitution to limit the power of traditional parties. What are the prospects for Correa being successful in achieving his objectives? Will he be able to avoid the same fate as that of several of his predecessors, who saw their terms in office end prematurely?

A Guest Comment: César Montúfar: "To achieve the change that he offered in his election campaign, President Correa must overcome several obstacles. First, the new government has to establish some kind of agreement with Congress, in which he has not a single deputy, and which he has dismissed as an institution since his election campaign. It is impossible that, even if the constitutional assembly is created, the country will have a Constitution that reorganizes its institutions in less than a year and a half. Meanwhile, the government will have to propose new laws to push its initiatives, and for that it needs to create a legislative majority that does not paralyze the country. The problem is that, given the radicalness of [Correa's] anti-party and anti-Congress speeches, a rapprochement between the president and the legislative forces could affect his levels of support and erode his political base. In any event, the new government must understand that the road of polarization and social mobiliza-

tion will not achieve his proposal for change, that some kind of agreement with not just the legislative forces but with those who sit in local government is needed. Without agreements, the president will simply not be able to make his reforms viable."

A Guest Comment: Andrés Mejía Acosta: "Unfortunately for Ecuadorean democracy, Rafael Correa does not have better prospects for political success or survival in office than his three deposed predecessors. One of the lessons to remember from the previous presidential crises is that Ecuador operates with a *de facto* parliamentarism, Continued on page 4

PHOTO OF THE DAY



Panamanian Health Minister Camilo Alleyne is being investigated for the deaths of at least 51 people poisoned by adulterated medicine made in government laboratories. See story below.

United Nations file photo.

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NEWS BRIEFS

Another Arrest Warrant Issued for Ex-Argentine Pres. Isabel Peron

An Argentine federal judge on Tuesday issued an international arrest warrant for former President Isabel Peron to face questions about the killing of leftist dissidents by government-linked death squads during her 1974-1976 rule, Reuters reported. It was the second international arrest warrant issued for Peron in less than a week. On Friday, the 75-year-old Peron was briefly detained in Spain after another Argentine judge, Raul Acosta, sought her for questioning in another human rights case.

Eight Companies Submit Bids on Bolivian Gas Exports to Argentina

Eight oil companies, including Brazil's state-owned **Petrobras** and Spain's **Repsol YPF**, have bid on a project to export Bolivian natural gas to Argentina, the president of Bolivian state-owned oil and gas company **YPFB** said Tuesday, according to state news service ABL. In October, Bolivia signed a 20-year deal to almost quadruple the amount of natural gas it exports to Argentina from the current maximum of 7.7 million cubic meters a day, starting in 2010, according to Reuters.

Industrial Output Grew 4.8 Percent in Mexico in November

Mexico's November industrial output grew a larger-than-expected 4.8 percent compared to the same period a year earlier on strong construction growth, according to data released on Tuesday, Bloomberg News reported. Economists expected industrial production to increase by less than 4 percent, according to Bloomberg News. Construction activity increased by 6.3 percent year-over-year in November.

Political News

Correa Government Doubles Welfare Payments to Ecuador's Poorest

The one-day-old government of Ecuadorean President Rafael Correa on Tuesday doubled welfare payments to the Andean nation's poorest individuals, Reuters reported. Correa, who took office on Monday vowing a "citizens' revolution" told reporters he was raising the monthly payments to more than a million of the country's most needy to \$30 from \$15. In a research note published this morning, **Credit Suisse** estimated the hike in welfare payments, and the inclusion of more recipients, would cost the government \$240 million, or 0.5 percent of GDP. "The Correa administration has still not said how it will fund this spending increase; we

officials over the deaths of at least 51 people poisoned by adulterated medicine made in government laboratories, Reuters reported on Tuesday. However, an official in the attorney general's office said the investigation was in response to a lawsuit filed by relatives of those who died, but cautioned that no specific crimes had as yet been identified and that the investigation did not merit Alleyne's resignation, according to Reuters. The Panamanian government in October declared a national epidemic alert after people began dying from a mysterious ailment. Experts from the US Food and Drug Administration later identified the source as cough syrups and other medicines contaminated with diethylene glycol, a solvent commonly used as brake fluid that was used in place of a similar but more expensive chemical often used in liquid drugs, according to Reuters.

Credit Suisse estimated the hike in welfare payments, and the inclusion of more recipients, would cost the government \$240 million.

expect more details to be released when the 2007 budget bill is sent to congress (by the end of January)," Credit Suisse said. In other news, Correa's economy minister, Ricardo Patino, said Tuesday that the government would meet with a group of Argentines to seek advice on how to restructure the Andean nation's debt. "Next week, the commission that renegotiated Argentina's external debt will come to hold talks and work out themes in debt legislation," Patino was quoted as saying by Reuters. Correa has vowed to restructure Ecuador's \$10 billion in foreign debt, and has pointed to Argentina, which in 2005 restructured some \$100 billion in defaulted debt, as an example to follow. Patino said Tuesday there was no timeframe for starting negotiations with bondholders but they would take place at the "appropriate time," according to Reuters.

Prosecutors Investigating Panama's Health Min. in Poison Epidemic Case

Panamanian prosecutors are investigating Health Minister Camilo Alleyne and other

Company News

Casino Exercises Option to Buy 24.5 Percent Stake in Colombia's Exito

French retailer **Casino** on Tuesday announced plans to exercise an option to buy a 24.5 percent stake in **Exito**, Colombia's biggest food retailer, for 233 million euros (\$US 301 million). In a press release, Casino, which already has a 25 percent stake in Exito, said it has 15 days to agree on the sale procedure with the sellers, the Toro family. "If no agreement is reached by the end of this period, the Toro family will sell the shares through a 'martillo' auction process on the Colombian stock exchange," Casino said. The news prompted Chilean retailer **Cencosud** to say it would not make a takeover offer for 100 percent of Exito's shares it has been trying to acquire since at least last October, when it reached a provisional deal to buy a 24.5 percent stake in the Colombian retailer from the Toro family for \$278.4 million, according to Reuters.

However, under the terms of a shareholder pact, Toro had to first offer the stake to its partners, including Casino, Colombia's **Grupo Empresarial Antioqueno**, and the Mejia family, Reuters reported. Exito, which had estimated sales of more than \$2.6 billion in 2006, last month received approval from Colombian anti-trust authorities to acquire **Carulla Vivero**, the country's second-largest retailer. The companies have a combined 250 stores in Colombia.

Telefonica Revises 2006 Revenue, Capex Estimates

Spanish telecom group **Telefonica** on Tuesday announced that strong demand for broadband last year, especially in Brazil, prompted it to revise its 2006 revenue estimates and to increase capital expenditure. Telefonica raised its 2006 revenue forecast to over 37 percent growth from a previously estimated range of between 34 and 37 percent, the company said in a press release posted on its Web site. Growth in subscribers partially accounted for the increased revenue. Telefonica had 7.3 million broadband users worldwide as of the end of September 2006, a 45 percent increase over the same period a year earlier. In Brazil, both broadband and mobile phone penetration grew significantly, the company said. As a result of the stronger-than-expected revenue growth, the telecom giant revised its capital expenditure estimate up from 7.2 billion euros (\$US 9.31 billion) to just under 8 billion euros, which is 50 percent higher than the previous year's capital expenditure. "The speed with which broadband has been developing in Spain and Latin America and the mobile telephony coverage requirements of Europe and Latin America have led Telefonica to bring its planned capex forward in time," Telefonica said in a press release. Telefonica cited third-generation network rollouts in Germany as one driver for increased capital expenditure, but also pointed out GSM rollouts in Latin America. "In order to meet growing traffic and customer needs, investments have also been made in second-generation networks (GSM) in Latin America (mainly Brazil), which have in turn translated into

Venezuela Watch

The vice president of Venezuela's National Assembly, **Desiree Santos**, on Tuesday authorized putting a proposal to allow President **Hugo Chavez** to legislate by decree on a fast track for approval, with debate on the proposal set to start tomorrow, the Assembly said in a statement posted on its Web site. The Enabling Law, which would last for a year and a half from the time it becomes law, would give Chavez broad powers to decree policy in areas such as the economy, public finances, public security, and national defense.

The National Assembly is also considering legislation that would put a cap on banks' profits, Bloomberg News reported on Tuesday. Under the bill, banks' profits would be capped to 8 to 10 percent of net worth and excess revenues would have to be handed over to the government. Last year, banks' profits totaled about 30 percent of capital, according to Bloomberg News. Markets reacted harshly to the news. **Banescobanco Universal CA**, Venezuela's biggest bank by assets, fell 20 percent to 210 bolivars on Tuesday, following a 27 percent drop the day before. **Banco Provincial CA**, the local unit of Spain's **Banco Bilbao Vizcaya Argentaria SA**, dropped 30 percent to 1618 bolivars.

Overall, the Caracas Stock Exchange index fell 12 percent on Tuesday to a nearly two-month low, Bloomberg News reported. The index has plunged 33 percent since January 8, when Chavez announced his plans to nationalize companies in the country's telecom and power sectors, and to strip the Central Bank of its autonomy. Shares in **Electricidad de Caracas (EDC)**, Venezuela's largest electricity distributor and a main target of nationalization, also fell 12 percent, according to Reuters. EDC accounted for 40 percent of the exchange's total trading volume of \$1.1 million, Reuters reported.

higher-than-forecast revenues for 2006 for Telefonica Group," the press release stated. Of Telefonica's broadband users, 3.41 million are in Spain and 3.47 million in Latin America. In Brazil, where growth has accelerated significantly, Telefonica has 1.5 million broadband users.

Bear Stearns Acquires Wells Fargo Units in Latin America, Caribbean

The private equity arm of **Bear Stearns** announced Tuesday it had acquired the consumer finance subsidiaries of **Wells Fargo & Company** in Panama, Aruba, the Netherlands Antilles, Trinidad & Tobago and Mexico. In a press release, **Bear Stearns Merchant Banking (BSMB)** said it made the acquisition through a newly formed entity called the

Caribbean Financial Group. Terms of the deal were not disclosed. The entities acquired represent regional consumer finance companies that offer unsecured personal loans, sales finance, and related credit insurance products to individuals, BSMB said. For **Wells Fargo Financial**, a unit of Wells Fargo & Company that had managed the companies involved in the deal, the transaction represented the sale of its remaining consumer lending operations in Latin America. Wells Fargo Financial President and Chief Executive Officer Tom Shippee said the deal would allow his company to focus on the company's core businesses in the United States and Canada. It continues to have a presence in Puerto Rico through **Reliable Financial Services**, an automobile financing business.

Featured Q&A*Continued from page 1*

where a strong legislative opposition has (illegally) induced government demise. While the 'traditional parties' like the Social Christians (PSC) no longer have a congressional majority, the new parties, specially Lucio Gutierrez's Sociedad Patriótica (SP) are quickly reproducing the same support and blackmail strategies with the new government. Like traditional parties, SP is also moving to

“President Correa is an impulsive but inexperienced politician, and his confrontational tactics are likely to backfire before they can invite cooperation.”

- Andrés Mejía Acosta

appoint key party people to government bodies of control and oversight, so that major policy decisions or government strategies will have to pass through the party's implicit or explicit consent. President Correa is an impulsive but inexperienced politician, and his confrontational tactics are likely to backfire before they can invite cooperation. It is unlikely that a constitutional assembly—if it takes place—will produce substantive changes that reflect the president's agenda. Correa has further reduced room for success by opening several other lines of conflict beyond the political sphere. In short, a combination of factors including the opposition's kidnapping of the government agenda, people's frustration with incomplete reforms, and/or the government's temptation to pursue reforms by authoritarian means threaten to reproduce the cycle of instability in Ecuador.”

A **Guest Comment: Alexei Páez Cordero:** "The conditions of the new government seem to make viable the institutional

transformations put forward by President Correa and articulated in a manner coherent with his original campaign proposal. Without a doubt, traditional parties will fight hard, but the new government's political ability and room for maneuver, with the support of popular mobilizations and significant swaths of public opinion, could be an efficient counterweight to the power of traditional elites, which find themselves in relative retreat but still with enormous ability to mobilize their own institutional and para-institutional power resources to block the proposed transformations. With that, a process of conflict is underway, but not as extreme as was foreseen up until a few days ago, because the president has won support for his proposal in sectors that previously rejected it, such as, for example, the Democratic Left, a traditional party. The possibility of an early departure from power by the president is probable, and it depends a lot on the soundness of the policies to be carried out, the ability to avoid unnecessary confrontations, and the active involvement of citizens in these fundamental transformations, the only course of action that can avoid this scenario. At any rate, what reigns is the idea that this is probably a final opportunity for the country to renew itself with proposals explained as clear as day by President Correa."

César Montúfar is Director of the *Andean Center for International Studies at the Simon Bolivar Andean University in Ecuador.*

Andrés Mejía Acosta is a *Research Fellow in the Institute of Development Studies at the University of Sussex.*

Alexei Páez Cordero is a *Professor at the Latin American School for Social Sciences (FLACSO) in Ecuador.*

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Erik Brand,
General Manager, Publishing

Robert Simpson,
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Reporter

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Inter-American Dialogue:

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Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at fretrial@thedialogue.org

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