



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Spain and Venezuela on Monday signed a deal under which Venezuela would buy from Spain \$1.56 billion worth of military equipment—eight patrol boats and 12 transport aircraft—despite US objections. What is the significance of the arms deal? Are US concerns that the sale could be a "destabilizing factor" in Latin America justified?

A Guest Comment: **Marta Lucía Ramírez de Rincón:** "Hugo Chavez believes that the military support Colombia has received from the US through the Plan Colombia has distorted the delicate regional military balance, an alteration which justifies his recent military acquisitions. These acquisitions include not only the eight patrol boats and the 12 transport aircraft purchased from Spain, but also 100,000 AK-103 standard and AK-104 compact rifles—rifles that, coincidentally, happen to use the same ammunition as the FARC—40 Russian military helicopters, and 12 Super Tucan airplanes from Brazil, among others. However, the truth is that the money from Plan Colombia, regardless of what many believe, cannot be destined to buy military equipment and can only be used on foot operations against drug traffic and on counterinsurgency. Experts say that Chavez's attitude is very aggressive and could lead to a regional arms race featuring Venezuela and Colombia, but the truth is Colombia is absolutely overwhelmed by its

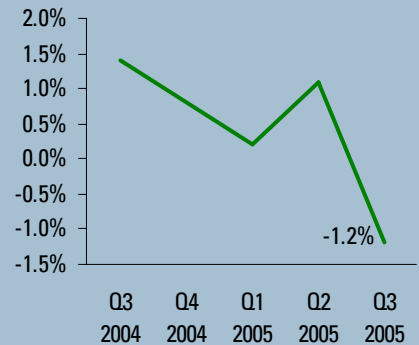
internal problems and does not have the resources to respond to Chavez's purchases should there be a bellicose attitude on his part. However, Chavez's and Uribe's recent encounters have been very friendly, and this scenario is very unlikely. Nonetheless, both governments should work in the development of measures in order to strengthen mutual trust, such as the participation of a third party in order to control the final destination of the new military equipment and of the ammunition designed for the AK rifles to avoid that these end up in the wrong hands outside of the institutional public forces. Additionally,

Continued on page 4

CHART OF THE DAY

Brazil GDP Growth

Q3 2004-Q3 2005 (QoQ % Change)



Brazil's economy shrank for the first time in two years in the third quarter. See related story on page 3.

Source: IBGE.

Inside This Issue

FEATURED Q&A: What is the Significance of the Spain-Venezuela Arms Deal?	1
Venezuelan Opposition Parties Pull Out of Sunday's Vote, Claiming Bias.....	2
New Poll in Mexico Shows Lopez Obrador with Wide Lead	2
News Briefs: Fox on US Immig. Reform, Chile's Jobless Rate Falls, CVRD-Canico Deal.....	2
Brazil's Economy Shrinks For First Time in Two Years in Third Quarter	3
The Dialogue Continues: What Are the Prospects for the US-Andean FTA?	3

NEWS BRIEFS

Mexico's Fox Hopeful US Will Enact Immigration Reform

A day after US President George W. Bush vowed to strengthen security along the US-Mexico border, Mexican President Vicente Fox expressed optimism that the US would implement immigration reform. Fox said US immigration reform, including proposals to create a temporary guest worker program for Mexican immigrants, was in the US' own interest.

Source: Reuters.

Chile's Jobless Rate Falls to Two-Year Low in Aug-Oct Period

Chile's unemployment rate fell to 8.1 percent during the three months through October from 8.5 percent for the three months through September, the National Statistics Institute (INE) said Tuesday. It was the lowest jobless rate in Chile for the August-October period since 1998, and compared to a rate of 9.4 percent for the same period of last year. The declining jobless figures come amid a booming economy as Chile rides record prices for its main export, copper, a strong currency, and solid consumer spending.

Source: INE, Reuters.

Brazil's CVRD Buying Canada's Canico for \$749 Million

Brazilian mining giant CVRD announced Tuesday that it had agreed to buy a 93 percent stake in Canadian nickel miner Canico for 876 million Canadian dollars (\$US 748.7 million). CVRD, the world's largest miner of iron ore, said the acquisition of Canico would make it a global player in non-iron metals mining. Canico owns the Onca Puma nickel project in Brazil's Para state, a project which is expected to start up operations in 2008.

Source: company statement.

Political News

Venezuelan Opposition Parties Pull Out of Sunday's Vote, Claiming Bias

Two Venezuelan opposition parties withdrew from this Sunday's legislative elections, protesting that conditions are biased in favor of the government of President Hugo Chavez, the Associated Press reported. The center-left Democratic Action party, the largest opposition faction, said it does not trust the country's National Electoral Council (CNE) to carry out a fair vote. "In these conditions, we can't participate in the electoral process," said AD General Secretary Henry Ramos. "The Electoral Council is biased." Ramos said his party is demanding a suspension of the

“It's evident that we Venezuelans have the right to vote, but not the right to elect.”

- Henrique Salas

elections until equal conditions exist for all political parties. Another opposition party, Project Venezuela, also announced its withdrawal from the elections, while the opposition Social Christian Party, or Copei, threatened to boycott the vote. "It's evident that we Venezuelans have the right to vote, but not the right to elect," said Project Venezuela President Henrique Salas, who lost to Chavez in the country's 1998 presidential election. "We vote, but the National Elections Council elects." The announcements came a day after the CNE decided that high-tech thumbprint identification devices would not be used in the elections, according to the AP. Critics argued the devices endangered voters' confidentiality. Ramos said the CNE still had not convinced opposition candidates that the voting software did not threaten voters' confidentiality. Members of the electoral council have repeatedly denied accusations of a pro-government bias, and Chavez on Tuesday insisted this Sunday's elections would be conducted fairly. "What fraud? They should accept the truth

that they have no public," Chavez said. "It's an attempt at political sabotage." The AD holds 23 of the 79 opposition-held seats—more than any other opposition party, while legislators allied to Chavez control 52 percent of the total seats. The AD was founded in 1941 and dominated Venezuelan politics from the fall of the country's last dictatorship in 1958 until Chavez rose to power in 1998. This election could be the first time since Venezuela's last dictatorship fell in 1958 that neither the AD nor Copei fields a candidate, according to the AP. Observers from the Organization of American States and the European Union will be present for Sunday's vote.

New Poll in Mexico Shows Lopez Obrador with Wide Lead

Mexican presidential frontrunner Andres Manuel Lopez Obrador has a 12-point lead over his closest competitor, a local newspaper poll showed Tuesday, according to Reuters. The poll by *El Universal* showed that Lopez Obrador, the former mayor of Mexico City and candidate of the opposition Party of the Democratic Revolution (PRD), was well ahead with 34 percent support. Felipe Calderon of the ruling National Action Party (PAN) was his closest follower, with 22 percent support, followed by Roberto Madrazo of the Institutional Revolution Party (PRI) with 18 percent, down from 24 percent in June.



Lopez Obrador
Photo: candidate's
Web site

Lopez Obrador fell one point since the newspaper's last poll in June. The poll of 1,000 voters, which was carried out November 18-22 and had a margin of error of 3.1 percentage points, contradicted several recent surveys that found a much closer race between the top three presidential candidates leading up to the July 2 contest. According to a poll published last week by Mexico's *Reforma* newspaper, Lopez Obrador's lead over Calderon had dwindled to one percentage point. Two others released in the last two weeks found Lopez Obrador in a statistical tie, first with both his opponents and then with just Calderon. Lopez Obrador

resigned as Mexico City's mayor in July to begin campaigning ahead of the other main contenders, but his polling numbers have since dropped. Observers attribute Madrazo's dip in the polls to a bitter primary election and growing opposition from rivals in his own party, which ruled the country for 71 years until President Vicente Fox's victory in 2000. According to the *El Universal* poll, those questioned said they felt Lopez Obrador was the most honest of the candidates and the best choice for solving unemployment and managing the country's economy. However, the left-leaning candidate has Mexico's business community nervous. In a speech to business leaders on Tuesday, Lopez Obrador said the government would play a more active role in the economy, according to Reuters. "Markets are good, they generate wealth," he was quoted as saying in a speech to the American Chamber of Commerce in Mexico. "But you also need the state to distribute wealth."

Economic News

Brazil's Economy Shrinks For First Time in Two Years in Third Quarter

Brazil's economy contracted 1.2 percent in the third quarter compared to the second quarter, hit by declines in the agricultural and industry sectors, government statistics agency IBGE said today. It was the first decline in Brazil's GDP in two years, and exceeded economists' predictions of a 0.3 percent drop, according to Reuters. IBGE said the agricultural and industry sectors fell 3.4 percent and 1.2 percent, respectively, in the third quarter, while growth in the services sector was flat. The worse-than-expected decline in Brazil's economy comes less than a year before the country's presidential election, and amid declining popular approval ratings for President Luiz Inacio "Lula" da Silva. A poll published last week revealed for the first time that Lula, who had previously appeared unbeatable ahead of the October 2006 race, could lose the election in a second round run-off. Critics of the Lula government's economic policy say Finance Minister Antonio Palocci's tight spending

The Dialogue Continues

A continuation of the November 29, 2005 Q&A

Q **The US and three Andean nations—Colombia, Ecuador, and Peru—ended their latest round of trade talks last week without an agreement, amid differences over agriculture and intellectual property. What are the prospects for an agreement at this late juncture, especially given elections in all four countries next year? In lieu of a free trade deal, do you foresee an extension of US preferences for Andean exports beyond their December 2006 expiration?**

A **Guest Comment: Eric Farnsworth:** "Every trade negotiation has its own rhythm, and the Andean negotiations are no different. With very difficult issues remaining on the table, some of which will be discussed in the WTO context, it is no surprise that a final agreement has not been struck by the negotiators prior to Hong Kong. As this stage, as a practical matter the pre-Doha phase now enters full swing, and it's difficult to see how US negotiators in particular will have an opportunity to focus on Andean negotiations again until after Hong Kong. Nonetheless, prospects for agreement are ultimately strong, since it remains in the long-term interests of each of the parties to conclude an agreement

upon resolution of outstanding issues, but timing considerations now come more clearly to the fore. As to prospects for extension of ATPDEA beyond 2006, that is far in the distance in polit-

“... The administration was adamant that it would not seek to extend CBI to Central America in the absence of CAFTA, and at this stage, that appears to be the prevailing precedent.”

- Eric Farnsworth

ical terms. Still, the administration was adamant that it would not seek to extend CBI to Central America in the absence of CAFTA, and at this stage, that appears to be the prevailing precedent."

Eric Farnsworth is Vice President for Washington Operations at the Council of the Americas.

controls have hurt growth, while others say the semi-independent Central Bank has kept interest rates too high for too long to curb inflation before lowering them in September, according to Reuters. In addition, some economists say declining consumer confidence stemming from a five-month-old corruption scandal is partly to blame for the third-quarter fall in GDP. Compared to the same three months of 2004, Brazil's economy

expanded 1.0 percent, IBGE said. For the first nine months of the year, the economy grew 2.6 percent year-on-year. Economists predict Brazil's GDP will grow around 3 percent after posting growth of 4.94 percent last year, its fastest pace in a decade. Before today's GDP figures were published, CSFB predicted a quarterly decline of only 0.5 percent in the third quarter and said growth this year should come in at around 2.5 percent.

Featured Q&A*Continued from page 1*

it would be very valuable if both presidents publicly state that the development of an arms race between Colombia and Venezuela is not possible, since there is nothing more inconvenient than an armed conflict between these two countries."

A Guest Comment: Jay Cope: "We must keep Venezuela's arms purchase from Spain in perspective. The deal is not new. It has been in the works for over a year and should be seen in the context of actual or pending purchases from Russia (assault rifles, manufacturing plants for assault rifles and ammunition, helicopters, and jet fighters), Brazil (aircraft), and China/Ukraine (mobile radar units). In reality, Venezuela's rearmament has begun. Unless other states can convince Venezuela and Spain otherwise, they will consummate the sale, although permission to transfer specific US components in the Spanish equipment is under review in Washington. Military modernization is an important tool for President Chavez. His armed forces have a 63-year relationship with the United States, which is apparent in combat systems, doctrine, training, and professional mindset. This is disturbing to a Bolivarian. He also does not want the country's defense tied to US systems and repair parts. Anti-Americanism argues for the armed forces to be oriented professionally in other directions while the safety of the regime demands that the military be transformed into a reliable instrument. The linkage to the United States is not going to be easily changed; modernization is an important step in a new direction. Rearmament will take time. Several years will be required to acquire all the systems, train personnel, and integrate the material into fully operational units with reliable logistical systems. At this point, there is time to see how President Chavez intends to use his new capabilities and to gauge how Latin American and Caribbean states are going to react. Will Venezuelan foreign policy replace the 'soft power' of oil diplomacy with 'hard power' of military dominance

over weaker neighbors? Venezuela already has employed its navy to frustrate Guyana's efforts to explore for petroleum near their common maritime border. Will Venezuelan small arms show up in other countries? Bogota already claims Venezuelan arms are being used in Colombia. Will this military modernization awaken dormant zero-sum, competitive strategic thinking? The answer is not clear, but the record is not good."

A Board Comment: Adrian Cruz: "The recent deal signed by Venezuela to buy \$1.6 billion worth of military equipment from Spain after explicit objections by the US ambassador to Spain, Eduardo Aguirre, was as much an insult to the US from Spain, as from Hugo Chavez. US-Spain relations have deteriorated since Spanish Prime Minister Jose Luis Rodriguez Zapatero took office last year and immediately withdrew Spanish troops from Iraq. Perhaps it is a misguided attempt to regain influence in the region after neglecting it for 150 years post *conquista*, colonization and wars of independence. Spain left the region with little more than a common language, corrupt institutions and socioeconomic inequality. Selling military equipment to the region's bully is no way to make a comeback."

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