

## Chavez Latin America Allies Escalate Rhetoric on Debt

By Joshua Goodman and Daniel Cancel

Dec. 17 (Bloomberg) -- South American leaders allied with Venezuelan President Hugo Chavez ratcheted up their rhetoric against foreign creditors after Ecuador's default last week, saying they're studying the legitimacy of their own debts.

Paraguayan President Fernando Lugo, speaking today at a regional summit in Brazil, said his government, like Ecuador, will "exhaustively study" its debt, and Bolivia's President Evo Morales said multilateral lenders should compensate their third-world borrowers. Chavez, while supporting his allies' posture on debt, said Venezuela isn't reconsidering its obligations.

"We need to see if there's ethical value in paying debt that wasn't utilized for public good," Lugo told reporters today at the conclusion of the summit at a beach resort in Bahia state.

Lugo and Morales' attack on foreign creditors follows the decision by Ecuador's President Rafael Correa last week to default on \$3.9 billion of foreign debt. An audit commission appointed by Correa said the bonds were riddled with irregularities and illegality. The leaders today went a step further, with Lugo, Morales and Correa saying debts created by military dictatorships to implement "neoliberal," or free market, policies should be canceled.

### Paraguay

About \$2.5 billion of Paraguay's total debt burden of \$4 billion, and \$2 billion of Bolivia's \$5.6 billion debt, is owed to mostly multinational foreign creditors, according to Standard and Poor's. Neither country has foreign bonded debt.

Enrique Alvarez, head of Latin America fixed-income research at IDEAGlobal Inc. in New York, said the rhetoric amounted to a show of support for Ecuador that wouldn't unsettle markets.

"Paraguay and Bolivia, unfortunately, aren't of relevance to the financial markets because they don't have actual private debt, or debt contracted with the financial market, just multilateral debt that's been forgiven," he said in a phone interview.

Morales said loans provided by the International Monetary Fund and World Bank were unfairly tied to adoption of free market economics and asset sales. Countries in the third-world should be compensated by the multilateral organizations for the "looting of social services," he said.

### 'Military Dictatorships'

"Debts acquired by military dictatorships for the application of neoliberal policies should be

canceled," Morales said.

Chavez said Venezuela wasn't reviewing its debt "at this moment," though it supported the right of Ecuador and third world countries collectively to do so.

"We've all paid our debts two and three times over and there it is stuck at the same levels," Chavez said. "Debt is the tool used by the empire, the dominant countries, to exploit our people."

The region-wide summit, the first to take place without the U.S., ended with leaders attacking U.S. policies toward Cuba and expressing hope President-elect Barack Obama will change tack. Leaders normally divided by ideology, from market-friendly Mexico to Venezuela, celebrated the attendance of Cuban President Raul Castro, on his first trip abroad since taking over the communist island from his brother two years ago.

Morales said Latin American countries should expel U.S. ambassadors unless Obama met an unspecified deadline to lift the embargo. Brazilian President Luiz Inacio Lula da Silva said he was optimistic the incoming U.S. administration will move in that direction and urged leaders to be patient. In a final statement, leaders asked the U.S. to end the embargo and measures under the so-called Helms-Burton law designed to toughen it.

The statement also called on the U.S. to restore to Bolivia trade benefits President George W. Bush suspended last month over Morales' expulsion of the Drug Enforcement Administration for allegedly conspiring against him.

The leaders said Bush's decision threatened to eliminate jobs and exports for Bolivia's economy. Yesterday the Mercosur trade bloc led by Argentina and Brazil agreed to import duty-free \$30 million in Bolivian textile products next year to make up for the loss of access to the U.S. market.

*Last Updated: December 17, 2008 18:42 EST*