

INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|--|
| Diego Arria
Director,
Columbus Group | Peter Hakim
President,
Inter-American
Dialogue |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | Donna Hrinak
Director for Corporate
and Govt. Affairs,
Kraft Foods Inc. |
| Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co. | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co. | John Maisto
Director,
US Education Finance
Group |
| Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Thomas F. McLarty III
President,
McLarty Associates |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Carlos Paz-Soldan
Partner,
DTB Associates, LLP |
| Marlene Fernández
Former Bolivian
Congresswoman and
Ambassador | Beatrice Rangel
Director,
AMLA Consulting LLC |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | José Antonio Ríos
Chairman,
Global Crossing
Latin America |
| Javier Garza
Chairman and CEO,
Grupo Domos
Internacional | Andrés Rozental
President,
Rozental & Asociados |
| | Everett Santos
President,
DALEC LLC |
| | Roger Scher
Head of Latin American
Sovereign Ratings,
Fitch Ratings |

FEATURED Q&A

Is a Solution to Bolivia's Political Impasse Closer at Hand?

Q Bolivian President Evo Morales and the governors of four eastern opposition provinces easily survived recall votes on Sunday. What is the outlook for Bolivia in light of Sunday's results? Are Morales and the opposition closer to a resolution of the current impasse over a new Constitution, provincial autonomy, land reform, etc., or farther away?

A **Guest Comment: Ivan Rebolledo:** "The results from Sunday's recall referendum were not totally unexpected, but Morales' almost 63 percent (unofficial) of the vote compared to 53.7 percent when he was elected in 2005 truly was. In addition to this affirmation of his mandate, the governors of the 'half moon' did just as well, if not better. These results clearly demonstrate Bolivia's deadlocked social and political landscape and divide the country map into 'blue' and 'red' states. While the international community is still hoping that the two sides can seek a compromise after Sunday's vote, the opposite seems to be taking shape. The 'half moon' governors are calling for their own police force, regional legislative bodies, and more control over their tax collection. The Morales administration wants to quickly move ahead with the approval of a new Constitution, which would redefine private property, create new guidelines for foreign direct investment, centralize more power with the presidency, and, most important-

ly, allow for Morales' re-election. It is time for President Morales to take the lead in genuinely easing tensions with his opponents by holding elections [for governor] quickly and transparently, and restarting negotiations on the IDH (revenues from hydrocarbons) with each state. Now that both sides have secured their popular support, it is time to sit down and negotiate."

A **Guest Comment: Marcus Schultze-Kraft:** "The results of the recall referendum do not come as a surprise. Sunday clear-
Continued on page 3



Uruguay Gets New Economy Minister as Astori Steps Down

Uruguayan President Tabare Vazquez (L) on Monday named Alvaro Garcia (R) the country's new economy minister to replace the outgoing Danilo Astori. See story on page 2.

Photo: Uruguayan government.

Inside This Issue

FEATURED Q&A: Is a Solution to Bolivia's Political Impasse Closer at Hand?1	Mexico City to Create New Police Unit in Wake of Teen's Murder.....2
S&P Lowers Ratings on Argentina, Citing "Economic Challenges".....2	Brazil Approves Environmental License for Hydroelectric Dam.....3
Astori to Step Down as Uruguay's Economy Minister.....2	Petition Calls for Re-election of Uribe to Third Straight Term.....3

NEWS BRIEFS

Mexico City to Create New Police Unit in Wake of Teen's Murder

Mexico City Mayor Marcelo Ebrard said Monday the city will create a new police investigative agency to replace an old, corruption-ridden detectives' unit, part of a series of anti-crime reforms announced following the murder of the teenage son of a prominent businessman. Mexico City detectives are suspected of involvement in the boy's abduction and murder, which has sparked widespread outrage and calls for action.

Petrobras Posts 29 Percent Growth in Second-Quarter Profit

Brazilian national oil company **Petrobras** announced Monday that its second-quarter profit rose by 29 percent over the same quarter in 2007. Higher prices and increased production brought net income to 8.78 billion reais (\$US 5.48 billion) for the April to June period of 2008 compared with 6.8 billion reais (\$4.25 billion) for the second quarter of 2007, the Associated Press reported. Profits for the first half of 2008 reached a new record at 15.7 billion reais, 44 percent higher than the same period in 2007.

Study: Climate Change Could Reduce Brazilian Food Exports

Brazil, one of the world's largest food suppliers, could see a significant decrease in crop exports due to climate change, according to a recent study cited Monday in the *Financial Times*. According to the study, even a modest rise in temperatures from their baseline levels between 1961 and 1990 could decrease the value of Brazil's six main food crops—rice, coffee, beans, cassava, maize, and soya—by up to 7.1 billion reais (\$US 4.39 billion) by 2020.

Economic News

S&P Lowers Ratings on Argentina, Citing "Economic Challenges"

Standard & Poor's announced Monday that it lowered its credit ratings for Argentina, citing "increasing economic challenges" in the South American nation. In a press release, S&P said it lowered its foreign and local currency long-term credit ratings on Argentina to "B" from "B+," and its national scale rating on the country to "raAA-" from "raAA," and its transfer and convertibility assessment on Argentina to "BB-" from "BB." It said the outlook for the ratings is "stable," meaning no further action is imminent. "The downgrade reflects Argentina's increasing economic challenges," S&P credit analyst Sebastian Briozzo was quot-

increase in taxes on grain exports, S&P said. The downgrade comes amid a decline in Argentine bonds, which widened Friday to their highest level since the country's massive 2005 restructuring of its defaulted debt. Investors are growing more worried about the government's ability to service its debt next year, when its financing needs are set to double to \$11.8 billion. Other ratings agencies are also contemplating action. Last week, **Moody's Investors Service** sovereign credit analyst Gabriel Torres said the ratings firm expects to review its positive outlook for Argentina's credit rating in the coming weeks. However, Torres said a ratings downgrade was unlikely. A downgrade would put Argentina in a category Moody's reserves for countries in or very close to default, which is not the case for Argentina, he said.

“... Inflation and fiscal and financial strain have increased while the likelihood of the government taking prompt corrective measures to staunch the loss of creditworthiness remains low.”

— Sebastian Briozzo

ed as saying in the press release. "In particular, inflation and fiscal and financial strain have increased while the likelihood of the government taking prompt corrective measures to staunch the loss of creditworthiness remains low." S&P said it would be increasingly difficult for the government to tighten fiscal policy and contain inflation—estimated unofficially to be running at 24-28 percent—given the declining popularity of President Cristina Fernandez and congressional elections next year. "Recent measures—such as increasing the price of electricity and an apparent slowdown in the rate of growth of public expenditure in June—could help stabilize expectations about Argentina's economic outlook if they are expanded and if they are complemented by similar initiatives in other sectors," the ratings firm said. Investor confidence would also receive a boost by a continued reduction in political tensions following lawmakers' rejection last month of Fernandez's

Astori to Step Down as Uruguay's Economy Minister

Uruguayan officials announced Monday that Economy Minister Danilo Astori will step down on September 15, a move that could signal plans by Astori to seek the presidency next year, Reuters reported. Astori, who has overseen five straight years of economic growth, is expected to return to the Senate, where he held a seat before being named economy minister. President Tabare Vazquez said Astori would be replaced by Alvaro Garcia, an accountant and former head of Uruguay's National Development Corporation, and emphasized the change "does not represent any modification in economic policy." Vazquez, a member of



Astori

Photo: Uruguayan government.

the center-left Frente Amplio coalition, is backing Astori to become the coalition's presidential candidate next year, although Astori has not said publicly whether he intends to run for office. If he decides to run, Astori is expected to compete for the nomination against Senator and former guerrilla Jose Mujica. The Frente Amplio's candidate is expected to face the greatest challenge for the presidency from the conservative Blanco Party. [Editor's note: see related Q&A in the August 5, 2008 [issue](#) of the *Advisor*.]

Brazil Approves Environmental License for Hydroelectric Dam

Brazil's environment minister, Carlos Minc, said Monday he approved a license for the planned 3,150-megawatt Santo Antonio hydroelectric dam in the western Amazon state of Rondonia, but attached stringent conditions to protect Indian reservations and nature preserves, Reuters reported. Minc said the license for the dam, one of two planned for the Madeira River in Rondonia, is contingent upon millions of dollars of investments in equipment for fire fighters, environmental police, and sewage treatment for the state capital, Porto Velho. However, environmental groups Friends of the Earth, Amazonia, and International Rivers on Monday accused Brazil's environmental authorities of "approving a mitigation plan which will do little" to lessen the dam's impact "on the region's biodiversity, and on river bank communities, including indigenous tribes living close to the reservoir area," the AP reported. In December, the government auctioned off the rights to build the dam to a consortium that includes Brazilian conglomerate **Odebrecht** and state-owned electricity company **Furnas**. The dam is expected to cost 9.5 billion reais (US\$5.9 billion) and go into operation in 2012.

Political News

Petition Calls for Re-election of Uribe to Third Straight Term

Supporters of Colombian President Alvaro Uribe on Monday handed in five

Featured Q&A

Continued from page 1

ly showed that the correlation of political forces in Bolivia and the stand-off between the administration of President Evo Morales and the eastern lowland opposition remains unchanged. The poll's potential importance resides in the fact that neither the government nor the opposition 'subdued' the other side in the voting booth. As such, it could provide a window of opportunity for Bolivians to begin resolving their country's deep divisions. First, statements by Morales as well as the opposition [governors], except for the one in Santa Cruz, appeared to reflect both a greater understanding that zero-sum games are falling short of achieving results and an increased sense of urgency on part of both camps to re-establish dialogue. However, the challenges in this regard remain huge and the positive signs have to be backed up by concrete action. A first step would be finding agreement—possibly with international facilitation—on the creation of a robust forum for political dialogue on the new Constitution and [provincial] autonomy. Failure to successfully address these key issues now could likely trigger a new and more serious round of confrontation, with the Morales administration seeking to force approval of the new Constitution in yet another referendum and the opposition [governors] and civic committees continuing to unilaterally drive forward [provincial] autonomy."

million signatures petitioning for a referendum to allow Uribe to run for a third straight term, Reuters reported. Three armored trucks delivered the signatures to election officials in Bogota to petition for the vote on a constitutional amendment that would allow a third presidential term for Uribe. The president, who was re-elected to a second four-year term in 2006 after his allies in Congress approved a constitutional amendment, has not said whether he will run again. Uribe remains very popular in Colombia, where he is

A **Guest Comment: Gustavo Guzmán:** "The results of the revocatory referendum in Bolivia present at least three pieces of information: 1) once more, and despite all the previous announcements of violence and confrontation, Bolivians have demonstrated to the world our firm desire to decide our destiny peacefully and democratically; 2) Bolivia's recent history of democracy was not known until August 10, 2008, a firm, determined, and unquestionable majority support from the Bolivian people for a national political project whose four main goals are: social equality, redistribution of wealth, constructing democratic autonomy, and the recovery of control over our natural resources in order to overcome poverty; 3) the results of the referendum constitute an obligatory invitation for coming together and reconciliation, which President Evo Morales has proposed: 'we are convinced that it is important to unite Bolivians, and the participation of the people through voting will unite the distinct sectors of city and country, east and west, and that unity will be achieved by joining the new Constitution of the Bolivian state with the statutes of autonomy [for regional governments]. This is the best way to unite all Bolivians.' One additional fact: six out of every 10 Bolivians are poor; they—that irrefutable 60 percent—are the ones who have decided the process of change in Bolivia."

Continued on page 4

credited with putting leftist rebels on the run and overseeing a solid economic expansion. Should Uribe agree to run, electoral officials would have verify the signatures before it can be sent to Congress and the country's constitutional court. If approved, a vote could be held in the second half of 2009, according to Reuters. Critics worry that a third term could undermine Colombia's democratic institutions. [Editor's note: see related Q&A in the June 11, 2008 [issue](#) of the *Advisor*.]

Featured Q&A*Continued from page 3*

A Guest Comment: Eduardo Gamarra: "The referendum in Bolivia ratified the polarization that has characterized this country over the course of the last eight years. How President Morales deals with the outcome will determine the country's future. During his victory speech, Morales sent a double message that must be pondered carefully. The tone of his speech was less confrontational than usual; it even lacked the anti-American slogans that have characterized most of his public performances. He also appeared to propose a dialogue with the governors of the 'half moon' [provinces], even suggesting that a way must be found to merge the autonomy statutes and the new Constitution that the president has been pushing since December when it was approved in a highly irregular manner. The speech, however, ended with the less conciliatory slogan '*patria o muerte, venceremos*' that sent a clear warning to the regional opposition. The also victorious half moon [provinces] were less conciliatory, especially Santa Cruz. Governor Ruben Costas gave a fiery speech in which he announced that the autonomy statutes would move forward full throttle and that his [province] was ready to resist by whatever means necessary any attempt at dismantling autonomy. This situation does not bode well for Bolivia. The government's agenda is to convoke yet another referendum to approve its Constitution. The 'half moon' [provinces] are unlikely to sign off on the referendum and even less on the content of the Constitution proposed by the government. Only Morales can avert a full-scale confrontation by accepting that autonomy as approved by each of four [provinces] is here to stay."

A Guest Comment: George Gray Molina: "Sunday's results suggest that both Evo Morales and the opposition [governors] of the 'half moon' are strengthened in their political mandate. Two things about the numbers: first, President Morales is nearly hegemonic in three departments

with more than 80 percent of the vote in La Paz, Oruro, and Potosi; second, the opposition prefects of Santa Cruz, Beni, and Tarija have increased their vote substantially with respect to the 2005 vote. If we were to look only at the numbers, the prospects for dialogue look bleak. The referendum deepens the regional cleavage between government and opposition and provides each with renewed legitimacy to be more radical. We should expect a second wind for President Morales on the national scene and a referendum on the Constitution in the next few months. However, if we look at the conciliatory statements made by President Morales Sunday night, there would appear to be a slim chance for talks over the autonomy statutes and the draft Constitution. The initiative is in the government's hands. I continue to believe that a solid first step would be to reach agreement on appointments to the National Electoral Court and the Constitutional Tribunal. With broad-based agreement on appointments (procedure), the government and opposition will be on a stronger footing to take a second step with negotiations on autonomy and the draft Constitution (substance)."

Ivan Rebollo is Managing Partner at TerraNova Strategic Partners LLC and President of the Bolivian-American Chamber of Commerce.

Marcus Schultze-Kraft is Latin America Program Director for the International Crisis Group.

Gustavo Guzmán is Bolivia's Ambassador to the United States.

Eduardo Gamarra is a Professor of Political Science at Florida International University.

George Gray Molina is an independent analyst.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2008

Erik Brand,
General Manager, Publishing
ebrand@thedialogue.org

Robert Simpson,
Editor
rsimpson@thedialogue.org

Matthew Schewel,
Reporter, Assistant Editor
mschewel@thedialogue.org

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Claudio Loser,
Senior Fellow

Manuel Orozco,
Director, Remittances and Development Program

Tamara Ortega Goodspeed,
Senior Associate, Education

Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at fretrial@thedialogue.org

Latin America Advisor is published every business day, except for major US holidays, by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.