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The Interactive Forum for the Region's Leaders

Thursday, September 25, 2003

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Advisor ANALYSIS

Q

The annual meetings of the World Bank and IMF conclude yesterday in Dubai. What do developing nations, particularly Latin American countries, take away from the meetings in terms of future relations with the two multilateral institutions?

A

Guest Commentary: Gary Hufbauer: "Good news and bad news. That's what Latin America can take from the Bank/Fund meetings in Dubai. Probably the best news is the IMF forecast for a robust world economy going into 2004, over 4 percent growth for Latin America. Mixed news is World Bank President Wolfensohn's continuing plea -- coming off the back of Cancun -- for rich countries to make grander concessions in trade talks. Sure, the rich countries ought to put all their agricultural supports on the table. But the reason Wolfensohn's plea counts as mixed news is that some Latin American nations might come to believe that the Doha Round is a morality play, not a negotiation. If Latin America asks for larger concessions than it is prepared to give -- measuring concessions by the time-honored scale of mercantilism -- neither the Doha Round nor the FTAA is going to move forward. The bad news from Dubai, for creditworthy borrowers like Peru and Brazil, was Argentina's proposal for a 75 percent haircut on bond holders. Of course, the haircut won't be that large after prolonged litigation and negotiation. But the headline impact will cast a pall over credit to the entire region."

“ ... The future relationship between developing nations and the two banks looks bleak.”

-- Vicki Gass

Guest Commentary: Jeffrey Frankel: "The developing countries have earned the right to a larger collective weight in multilateral governance. By now, their markets have become big enough to matter, they have been asked for substantive concessions, and they have become central to some of the financial and political issues that matter most in the world. Furthermore, the Asian central banks increasingly hold the fate of the dollar in their hands. The failure at Dubai to give poor countries more votes in the World Bank shows that the rich countries have not yet adjusted to new realities. Another example is the US administration's treatment of China policy as an appendage of the election-year strategy to mollify voters unhappy about shrinking employment in manufacturing states. But economic realities will prevail eventually. The US bond and stock markets reacted negatively to the G-7 communiqué from Dubai regarding increased exchange rate flexibility and thereby illustrated an economic lesson that the White House may not have adequately considered. The US is

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Economic News

Brazil's Lower House Approves Lula's Tax Reform; Bill Goes to Senate Next

In a second and final round of voting, Brazil's lower House of Congress on Wednesday approved President Luiz Inacio "Lula" da Silva's proposed tax reform bill, according to wire reports. Lower House deputies passed the bill, without amendments, by a vote of 346 to 92, well above the minimum of 308 votes needed. The reform, designed to make Brazil's tax system more efficient, now goes to the Senate, where it is expected to face stiffer opposition. In the lower House, lawmakers shot down efforts by the right-wing Liberal Front Party (PFL) to make changes to the bill, including the elimination of a four-year extension of the 0.38 percent CPMF financial transactions tax and of a vehicle ownership tax for aircraft and ships. The PFL also sought to delay by seven years the implementation of a shift of payment of Brazil's ICMS value-added tax on goods and services from their origin to their destination, but the party's proposed amendment never came up for a vote. The shift in the ICMS tax from origin to destination is expected to put an end to cutthroat competition among states to attract businesses through tax breaks. Passage of the bill yesterday by the lower House comes on the heels of deputies' approval last month of Lula's other major legislative initiative -- reform of Brazil's costly pension system. "The House concluded in record time two reforms for Brazil that will be fundamental for its development," said House President Joao Paulo Cunha, a member of Lula's Worker's Party. In other Brazil economic news, the government's statistics agency, IBGE, reported yesterday that unemployment in Brazil rose to 13 percent in August, up from 12.8 percent in July and 11.7 percent in August 2002.

Political News

Uribe Accuses ELN Rebels of Kidnapping Foreign Tourists

Hours after President Alvaro Uribe of

Brazil on Verge of Legalizing Genetically Modified Soybeans

Brazilian farmers will soon be able to legally plant genetically modified (GM) soybeans, Vice President Jose Alencar said Wednesday, according to Reuters.

"I will have to sign that decree," said Alencar, Brazil's acting president while President Luiz Inacio "Lula" da Silva travels this week to the US, Mexico, and Cuba.

"We need to issue the decree because it is urgent and, as we reach October 1, the rains are starting. That naturally means that it's time to plant and things have to move forward," he said.

Lawmakers that were consulted on drafting the decree said it would regulate GM labeling and royalty collection by US seed producer **Monsanto**.

The decree is a temporary measure until the government submits its transgenics draft bill to Congress, a source of controversy between the agriculture and environmental ministries.

Brazil is one of the world's last major agricultural exporters that bans growing GM crops, despite a longstanding underground farmer's trade in illegal transgenic soy from Argentina.

Brazil is quickly overtaking the US as the world's largest soybean producer [Editor's note: see related Q&A in September 15, 2003 issue of the *Latin America Advisor*].

Colombia on Wednesday accused the leftist National Liberation Army (ELN) of kidnapping eight foreign tourists nearly two weeks ago, Colombia's army chief announced that soldiers had found one of the tourists. Yesterday afternoon, an army patrol picked up a British man who had escaped his captors during a forced march through the thick jungles of the Sierra Nevada mountains. Camouflaged gunmen seized the man, another Briton, four Israelis, a Spaniard, and a German near a ruined ancient city on September 12, but no group has yet claimed responsibility. Uribe told morning TV yesterday that the ELN, with the support

of Colombia's largest guerrilla group - the Revolutionary Armed Forces of Colombia (FARC) -- appears to be behind the kidnappings. "If Mother Laura or Mother Teresa of Calcutta kidnapped them, then we'll go after them," Uribe said. The army continues to comb the mountains for the tourists with hundreds of troops and Black Hawk helicopters. The ELN and FARC use ransom money to help finance their four-decade-old guerrilla war. More than 1,000 people have been kidnapped in Colombia so far this year.

Pro-Chavez and Opposition Venezuelan Lawmakers Brawl

A marathon debate in the Venezuelan National Assembly over a bid to recall President Hugo Chavez brought lawmakers to blows on Wednesday, Reuters reported. The all-night debate began when opposition lawmakers contested government proposals to add 12 more magistrates to the 20-member Supreme Court, which they fear could allow the government to stack the court and torpedo a constitutional referendum to vote the leftist president out of office. "This draft law (reforming the Supreme Court) tries to extend the government's kidnapping of public institutions," opposition deputy Carlos Ocariz said. The debate was suspended until Thursday after opposition Christian Democrat deputy Cesar Perez and Chavez ally Iris Varela exchanged shoves, kicks, and scratches. Chavez, who was elected in 1998 and survived a coup last year, is fighting referendum attempts and accusations he is pushing Venezuela towards Cuba-style communism. The National Electoral Council (CNE), the country's electoral watchdog, rejected an opposition referendum petition earlier this month. The CNE expects to issue new rules for collecting signatures and holding a referendum by Friday. In other Venezuela political news, Chavez accused the US of harboring "terrorists" plotting to kill him. Although acknowledging he had no conclusive proof, Chavez said "coup-mongering, terrorist Venezuelans"

were plotting and training in the US. "If [US authorities] are really fighting terrorism as they say, they should act against these terrorists who are threatening Venezuela," Chavez said. The Venezuelan leader canceled a planned trip to the US this week after his government received information about a plot to kill him while he was there.

Company News

Pemex Denies Report it is Seeking to Sell Stake in Spain's Repsol YPF

Mexican state oil company **Petroleos Mexicanos** (Pemex) on Wednesday denied a newspaper report that it planned to sell a 4.81 percent stake in Spanish oil group **Repsol YPF**, Reuters reported. "During this administration, Pemex has continuously been evaluating its assets and investment to finance its [capital expenditures] program," Pemex investor relations spokesman Esteban Levin said. "But we have not made any decision regarding the stake in Repsol and have not given any mandate to any banks." Mexican newspaper *Reforma* reported on Wednesday that Pemex had enlisted investment banks **Goldman Sachs** and **Morgan Stanley** to manage the sale of its 4.81 percent stake in Repsol, owned by Pemex since 1979. Although Mexico is the world's No. 8 crude oil producer and No. 9 gas producer, investment in the sector has fallen and it increasingly relies on gas imports.

Ahold Sells Paraguayan Supermarket Chain

Dutch retailer Ahold announced Wednesday that it had sold its Paraguayan supermarket chain, **Supermercados Stock S.A.**, to **Grupo A.J. Vierci**, which owns several media, industry, and trade businesses in the South American nation, Reuters reported. "The divestment of Supermercados Stock S.A. is part of Ahold's strategic plan to restructure its portfolio, to divest consistently

underperforming assets, and to concentrate on its mature and most stable markets," Ahold said in a press release. Ahold, the world's third largest retailer, admitted to overstating profits by over \$1 billion earlier this year. It is selling operations throughout South America to reduce its \$13.6 billion debt pile and focus on other markets.

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becoming increasingly dependent on Asia to fund its deficits. Whatever it gains by intimidation of Asia on the exchange rate and the trade balance, the US will lose on interest rates and investment. If the G-7 wants to continue talking about China's currency, it will have to let China into the club. Argentina enjoyed some success in Dubai playing hardball in its debt negotiations. But more dramatic muscle-flexing occurred the week before at the WTO Ministerial in Cancun. When the developing countries were not offered areas for negotiation that would be of interest to them, they ended the meeting. For the first time, the signal that they need to be taken seriously is too loud to be ignored. True, it is unfortunate that a successful conclusion of the Doha Round is far off. The developing countries should use the extra time to think through more clearly what they want from it."

Guest Commentary: Ana Eiras: "There is little indication, unfortunately, that the IMF's and the World Bank's lending practices will change for the benefit of ordinary citizens in the developing world. The biggest problem with these two institutions is that the money they lend is not enough to make a difference in terms of growth, but it is more than enough to keep the leaders in the developing world anti-reform and corrupt. We all know by now that the only thing that increases living standards is sustained growth, and sustained growth requires economic freedom. Unfortunately, the World Bank and the IMF release their money before the reforms conditioning their loans are carried out. This sends the wrong message to the leaders in the developing world, who by now figured out that, as long as they are willing to make promises, enough money for them to do their politics will keep coming. Since the Dubai meetings are not about reforming the IMF's and World Bank's lending practices, but about exploring more ways to intervene in the world economy, these meetings only reconfirmed that developing countries can continue to do business as usual with these institutions."

Guest Commentary: Vicki Gass: "The harsh policies of the World Bank and IMF were neither discussed nor revised. The banks continue to advocate the privatization of essential services, cuts in health and education spending, trade and investment deregulation, and similar policies that have served to pay international creditors but not to protect or fulfill people's fundamental human rights or work towards sustainable development. Nor was the power imbalance between rich and poor countries in the World Bank's board of directors addressed. The only positive step forward was the agreement of the World Bank's private-sector lending arm, the International Finance Corporation (IFC), to adopt all of the core labor standards as standard conditions for all IFC loans. While encouraging for organized labor, whole sectors of societies remain vulnerable on many other fronts if the policies mentioned above continue to be implemented. Unless there are substantive, concrete changes, the future relationship between developing nations and the two banks looks bleak."

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

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