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HEMISPHERE HIGHLIGHTS

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Upcoming Events

August 31 Mexican Roundtable Series —The Left

Headlines

As expected, the **Venezuelan** National Assembly votes to change the law governing the Central Bank to permit the government to spend at least $6 billion of the bank's $28.9 billion of foreign reserves. **Ecuador's** economic prospects look dim, despite current positive statistics. **Brazilian** and Latin American markets in general react little after **China** announces the revaluation of the *yuan*. U.S. governors pledge to help **Mexico** decrease border violence. The board of directors of the Inter-American Development Bank elect Luis Alberto Moreno as the new president of the bank. As construction begins on the transcontinental highway between **Peru** and **Brazil**, doubts persist. At the registration of candidates for the October 23 mid-term elections, **Argentina's** two most powerful political leaders, President Kirchner and former president Duhalde, still fail to reach an agreement. **Venezuelan** and **Ecuadorian** press speculation indicates that President Hugo Chávez of Venezuela has offered to buy up to $500 million in Ecuadorian government debt.

North America

Mexico

Mexican Congress approves absentee voting in the 2006 presidential election. On June 28, Mexico's voting system underwent a historic change as Congress approved a bill, in a 455-6 vote, allowing Mexicans residing abroad to participate in the 2006 presidential elections by casting mail-in ballots. Mexico joins the ranks of nearly 70 other nations, including Iraq and the Dominican Republic, which allow its citizens to vote from abroad. The absentee voter program, estimated to cost $125 million, stipulates that in order to participate nationals residing abroad must request a mail ballot between October 1, 2005, and January 15, 2006; already possess a voter registration card; and, return the ballot between April 2 and June 30, 2006. Although close to 11 million Mexicans currently live in the United States, about half of whom are estimated to be of legal status, it is estimated that 60 to 70 percent will be omitted from the vote because they are not already registered in Mexico. In an attempt to sidestep the widely publicized flaws of Sepomex, Mexico's postal system, including late, lost, and stolen mail, ballots will be sent out by certified mail, considered 99.9 percent effective. Debate continues on the impact the absentee vote may have on the outcome of the presidential election, the voting rights of illegal immigrants, and the legitimacy of cast ballots. *Many commentators feel that the vote from abroad will have slight impact on deciding the presidential election. However, the change in voting laws is symbolically crucial because it formalizes the political influence of Mexicans living in the United States, whose remittances (close to $16 billion last year) represent Mexico's second-largest source of income. Little incentive exists for unregistered Mexicans to return home to obtain voter identification cards because of the large cost involved and because many of the potential voters are in the United States illegally and are not willing to risk apprehension. Of the fewer than 4 million eligible voters remaining, it is speculated that only a small percentage will vote because of lack of interest in political issues and the prohibition of candidates to campaign outside Mexico, either via the media or in person. Although flaws exist in the new voting system, the president of the Federal Electoral Institute (IFE), Luis Carlos Ugalde, is confident that the absentee process will work well.* **Kristin Wedding**

Recent Events

July 7 **Mexican Inter- and Intra-Party Dynamics Setting the Stage for 2006**

July 12 **Event on the Community of Democracies**

July 25 **Conference on Chile's Road to Development**

July 29 **Seminar with Finance Minister Luis Carlos Jemio of Bolivia**

U.S. governors pledge to help Mexico decrease border violence. On July 14 and 15 in Torreón Mexico, Texas governor Rick Perry and California governor Arnold Schwarzenegger met with the governors of six Mexican border states to discuss border security. Governor Perry stated that Texas would provide $5 million to increase law enforcement along the 2,000-mile border. Governors on both sides also agreed to ask their national governments to declare the border a "strategic zone." By doing so, national funding for antiterrorist measures would be made available. Tony Garcia, a member of the binational committee on border security, stated that law enforcement representatives from the United States and Mexico are creating a security plan that would allow both sides of the border to share key information in a timely manner through the establishment of a joint radio communication system and a criminal database. *Mexico and the United States are currently facing the challenge of combating the drug-related violence that wreaks havoc on both sides of the border. The plans discussed in the two-day meeting could have several implications for the future of border security. With more funding for high-tech security measures, emergency response equipment would be incorporated into the system, which would be available for both countries in the event of natural disasters or terrorist attacks. More funding would also be available for better training of the Mexican police force, and the high-tech database would serve as a means to track the members of criminal organizations. Members of the Mara Salvatrucha and the MS-18, two of the most dangerous Central American gangs, and of the Zetas, a group of Mexican drug hit men with an alleged high profile in Nuevo Laredo, will likely be better tracked in the database. The detailed plan comes in the aftermath of a wave of border violence in Nuevo Laredo, which has left more than 100 dead since June.* **Regina Rosi**

SOUTH AMERICA

Foreign ministers from Ecuador and Colombia met recently to discuss the growing instability of the border region. Ecuadorian concerns in the Colombia-Ecuador border area included insurgent violence and drug trafficking, displacement of refugees, and the alleged harmful effects of cocoa spraying in the area. Officials have agreed to form a bilateral border security commission to convene in mid-August to address these and other issues. Meanwhile, military commanders from both sides met in the border community of Tulcán to evaluate the security situation following the revelation that an attack by FARC rebels in the Putmayo region was launched from across the Ecuadorian border. FARC rebels reportedly move freely through the porous, 310-mile border, making the border region a transit site for drugs and arms shipments and a safe haven for criminals fleeing the Colombian military. Inefficient border control and violence has led to the displacement of thousands of indigenous Colombians, a refugee crisis that has gained the attention of the UN Commission on Human Rights, which advocates greater funding for reintegration programs and awareness campaigns to combat what they see as a potential destabilizing crisis. In addition, Ecuadorian officials have denounced Colombia's fumigation spraying in the border zone, demanding compensation for the damage it claims to have caused to crops and livestock within Ecuadorian territory. The Colombian government denies these claims and continues to use aerial eradication in the area. *On the agenda for debate in August are the proposed establishment of a 10-kilometer spraying-free zone along the border and the physical monitoring of the border by military personnel. If not dealt with effectively, the instability of the border region could not only undermine the Colombian government's war against narcoterrorism, but also become a growing source of tension and conflict between the two neighbors.* **Sarah Sloan**

The board of directors of the Inter-American Development Bank (IDB) elected Luis Alberto Moreno as its new president at a special meeting of the board on July 27. Moreno will assume the presidency of the bank on October 1, 2005, upon the retirement of Enrique Iglesias, who has led the IDB since 1989 and made the position one of the most important leadership roles in the hemisphere. The new president, who has been Colombia's White House ambassador for the last seven years, is well known in Washington circles for his prowess in obtaining U.S. funding for his afflicted country. His task will now be to secure increased U.S. support for the entire hemisphere. Iglesias will be a hard act to follow. During his tenure, the bank has repeatedly come to the rescue of troubled economies and propped up democratic leaders. *At first, many were skeptical that Moreno was the man for the job. Unlike Iglesias when he assumed the office, Moreno was little known as an economic policy expert. Those who know him, however, are impressed with his cool management style and his solid political judgment. In a skillful campaign for the job, he won over both the largest number of shareholders and hemisphere countries (gaining the support of 56 percent of the voting shares and 20 of the 28 hemisphere countries), the double majority needed for election). Some thought the fact that Moreno had the support of the U.S. government might be a burden on his campaign, and indeed U.S. support was more low keyed than it was for the former Salvadoran president in his ultimately failed campaign to be secretary general of the Organization of American States. But Moreno's campaign was helped when the U.S. president made it known that Moreno's election opens the way for greater U.S. involvement in the region.* **Phillip McLean**

Those who know Moreno, however, are impressed with his cool management style and his solid political judgment.

As construction begins on the transcontinental highway between Peru and Brazil, doubts persist. Construction has begun on the transcontinental highway that will link the Atlantic and Pacific Oceans. The plan has been in the making for 40 years as Brazil yearns for an economical, reliable means to export goods to Asia. Brazil sends 18 percent of its exports to Asia, mostly in the form of soy and wood pulp, which are extremely expensive to truck through Chile to a Pacific port. "This road will be Brazil's Panama Canal," said Alejando Indacochea of the Centrum Business School in Lima. The $900-million project, almost entirely within Peru, will include a 2,360-foot bridge, the largest in South America. Peruvian citizens and politicians are questioning whether the project will benefit Peruvian business and tourism sectors, considering that Peru is taking on $800 million in debt to fund construction. Peruvian policymakers believe that some 70,000 short-term jobs will be created along with increased tourism in the southern Amazon. Many are still skeptical, however. Peru's finance minister, Pablo Kuczynski, said, "The expectation is that there will be big traffic from Brazil to our ports, but there really are no numbers."Even more daunting, Peru faces the difficulty of maintaining the highway in one of the most extreme environments in the world, along with dealing with pollution, illegal logging, and forest clearing for agriculture. *There are many possible results, both negative and positive, to the current path of the construction of the transcontinental highway between Southern Peru and Brazil. There still remains much speculation as to whether the project will be worth it for Peru, even though many business propositions may open. For Brazil on the other hand, the highway provides an important outlet for export to Asia*. **Andrew Dean**

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Although it has not been officially announced, Venezuelan and Ecuadorian press speculation indicates that President Hugo Chávez of Venezuela has offered to buy up to $500 million in Ecuadorian government debt. Chávez also reportedly told the new Ecuadorian foreign and finance ministers, on separate visits to Caracas in mid-July, that state-owned Petróleos de Venezuela (PDVSA) would be willing to invest funds to expand Ecuador's crude oil production capacity. *This is but another example of Chávez using Venezuela's oil wealth to expand his country's economic and political influence in Latin America. Chávez is clearly prepared to spend freely to try to pull Quito away from U.S. suasion and to influence elections later this year for a constitutional assembly and presidential elections in October 2006. The politically weak Palacio government would welcome Venezuelan financial assistance to help prevent expected fiscal problems in 2006, which some analysts have speculated could even lead to a full-blown financial crisis.* **Lowell Fleischer**

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Brazilian and Latin American markets in general reacted little after China announced the revaluation of the *renminbi* (*yuan*) in July. The Chinese currency had been pegged at 8.28 to the dollar for over a decade when the People's Bank of China announced that it would instead tie the *yuan* to a basket of currencies. The Chinese currency was revalued at 2 percent against the dollar and is now at 8.11 to the dollar. *The* yuan *revaluation came at a lower rate than market expectations, representing a symbolic move with far more political than economic implications, and was seen as a response to international pressure. Brazilian manufactures, especially in the shoe and textile industries, will therefore continue to lobby in favor of safeguard measures against Chinese imports. Even though the* yuan *revalued 2 percent, the* real *appreciated more than 20 percent in the past 12 months making Chinese products still very cheap for Brazilian consumers. According to Brazil's Ministry of Development, Industry, and Trade, Brazil's purchases from China for the first six months of this year amounted to U.S.$2.273 billion, a 52.3 percent increase over the same period in 2004—Brazil's imports from China represent approximately 6.7 percent of Brazilian imports—while Brazil's exports to China for the first six months of 2005 are 6.6 percent lower than for the same period in 2004. For Latin American and Brazilian exporters, however, a more flexible currency increases prospects for a more stable China and a boost in Chinese consumption of Latin American products in the long run. Therefore, the long-term effects of a new exchange rate policy may eventually benefit some of Latin America's commodity exporters, such as Brazil*. **Viviane Leffingwell**

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Argentina

At the deadline for registration of candidates for the October 23 mid-term elections, Argentina's two most powerful political leaders, President Néstor Kirchner and former president Eduardo Duhalde, had still failed to reach an agreement. The primary battleground in the Kirchner-Duhalde confrontation is the race for national senate seats in the province of Buenos Aires, the most populous province and Duhalde's stronghold. In a twist that conforms to the roles played more than once by Peronist wives, Mrs. Kirchner and Mrs. Duhalde will head their respective tickets. But the division of the Partido Justicialista will not be limited to the province of Buenos Aires. In many other districts, Kirchner's followers will run under banners other than those of the up-to-now ruling party. *Questions arise: "why?" and "why now?" Some analysts have pointed to the Machiavellian maxim whereby a prince who owes his throne to someone else should hasten to destroy the latter's power. In accordance with this view, Kirchner's timing in attacking his rival is correct after two years of very strong economic recovery. Others tend to attribute this confrontation to President Kirchner's desire to transform Argentina's political system, which since 1945 has pitted alliances formed around the Uníon Cívica Radical against similar fronts led by the Partido Justicialista. According to this second view, his aim is to give birth to a more modern system centered on two ideologically based coalitions representing the center-right and center-left.* **Carlos M. Regúnaga**

The primary battleground in the Kirchner-Duhalde confrontation is the race for national senate seats in the province of Buenos Aires.

Ecuador

Ecuador's economic prospects look dim, despite current positive statistics. With record high prices for oil, the country's leading export, helped by sensible policies adopted after the collapse of the economy in 1999, the country has been on a positive path. GDP growth exceeded 7 percent last year and could exceed 4 percent in the current year. "Dollarization" has helped keep inflation low, lower even than in the United States. And debt to GDP ratios have dropped even as social spending has increased. *But the country has not gained the full benefit of the dollar standard because erratic political and economic policies have built a significant risk premium into interest rates, and the erratic treatment of foreign investors (e.g., Occidental and ChevronTexaco) has scared away new investment. Most important is that current fiscal policies are generally regarded as unsustainable. Ecuador's congress has voted, for example, to distribute in stages the reserve fund that was to have been built up against the inevitable decline of oil prices. The government that took over in April after the elected government was forced out by massive street demonstrations—made up predominately of middle-class protestors—has yet to show that it has a plan to deal with the looming crisis. Although oil prices are at record highs, it appears the government will have to borrow to meet current expenditures before the end of the year. In these circumstances, it has been tempted by a financing offer from Venezuela's Hugo Chávez, a possibility worrying to those who care about Ecuador's long-term future.* **Phillip McLean**

Ecuador has not gained the full benefit of the dollar standard because erratic political and economic policies have built a significant risk premium into interest rates, and the erratic treatment of foreign investors has scared away new investment.

Venezuela

As expected, the Venezuelan National Assembly this month voted to change the law governing the Central Bank to permit the government to spend at least $6 billion of the bank's $28.9 billion of foreign reserves. The congress also approved diverting some of the foreign currency earned from oil sales this year for additional government spending and debt buybacks. President Hugo Chávez said he would use the $6 billion of reserves to finance imports for government projects and social programs. *Venezuela still has plenty of reserves to service its debt, but spending down reserves will lessen the country's ability to cope with a decline in oil prices. Venezuela is due to pay $5 billion this year and $5.4 billion next year in interest and principal on its $27.7-billion foreign debt. Inflation will probably rise as Chávez increases government spending yet again. Government spending rose 44 percent during the first four months of this year and 61 percent last year, helping to spur a 7.9 percent jump in economic growth in the first quarter and 18 percent growth in 2004.* **Lowell Fleischer**

Venezuela still has plenty of reserves to service its debt, but spending down reserves will lessen the country's ability to cope with a decline in oil prices.

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