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Featured Q&A With Our Board of Advisors

Q According to a recent Ford Foundation-Rockefeller Brothers Fund poll, a majority of Americans support the growth of global trade "in principle," but are critical of US trade policy on jobs, the environment, and on the poor in other countries. In light of the poll data, how do you expect US popular sentiment toward trade to affect upcoming debates in Congress over free trade agreements with Latin American countries, particularly with Central America?

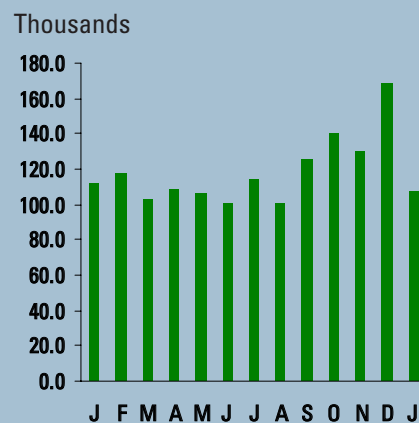
A Board Comment: Jon Huenemann: "My sense is that, while popular opinion always has some impact on congressional sentiment, when it comes to trade agreements the specific concerns and objectives of particular interests have more impact. At the same time, this is a presidential and congressional election year and the media coverage regarding the politics of the campaigns have picked up a lot of 'antitrade' sentiment and rhetoric—possibly an unprecedented amount. The economic conditions are such that trade is again being irresponsibly scapegoated as a large cause of the 'jobless recovery' in spite of the fact that the causes are principally other than trade. The broad economic consequences of these bilateral agreements for the US economy are largely inconsequential, although a net plus, and even in import-sensitive US sectors the politics are the tough issue and there is typically no real, immediate eco-

nommic issue looked at objectively. Even over the longer term so many other factors weigh into the equation in many sensitive sectors that it can be quite hard to dissect out the job implications of a trade agreement in many cases from these other factors. All this said, the Central America agreement has unfortunately become a focal point of those that tend to oppose trade agreements—both unions, some NGOs and certain import-sensitive sectors—so the fight will be tough in the

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CHART OF THE DAY

Brazil New Vehicle Registrations
Jan 2003-Jan2004



See related story on page 3.

Source: Anfavea.

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NEWS BRIEFS

Brazil's Itau, Bradesco to Compete in Bidding for State-Owned Bank

Brazil's two largest private banks, **Itau** and **Bradesco**, will compete in next Tuesday's scheduled auction of government-run **Maranhao State Bank (BEM)**. The two banks were the only ones to deposit financial guarantees to compete in the bidding for the bank by a Wednesday evening deadline. The sale of BEM would be the first privatization under the government of President Luiz Inacio "Lula" da Silva.

Bank Superintendent Steps Down in Venezuela

Venezuelan Superintendent of Banks Irving Ochoa has resigned. No reason was given for the surprise resignation, which comes a year and a half after Ochoa was appointed to the position. Ochoa will be replaced by Trino Alcides Diaz, who was previously Venezuela's tax superintendent.

Italy's Eni Signs Deal with PDVSA

Italian oil and gas company **Eni** has signed an agreement with state-owned **Petroleos de Venezuela (PDVSA)** to consider several projects in Venezuela, including the development of technologies and the training of Venezuelan personnel. Eni produces 70,000 barrels of oil per day from Venezuela's Dacion field.

US Okays Bradesco Operations

The US Federal Reserve has authorized Brazil's largest private bank, **Bradesco**, to provide merchant banking, insurance, fund management, and market-making services in the United States. Bradesco already operates a brokerage in the US.

Source: Reuters.

Economic News

Brazil Expects Increased Debt, But Better Debt Profile, in 2004

The Brazilian Treasury announced Thursday it expects the government's domestic debt load to finish this year between 820 billion and 880 billion reais (US \$280-\$300 billion), compared to 731.4 billion reais in 2003, Reuters reported. Although the country's total public debt burden, which includes foreign debt obligations, should reach 1.08-1.15 trillion reais this year, the Treasury's annual

“Fox said his tax reform plan would help the poor more than hurt them because the extra money raised would go toward housing and education programs.”

financing plan expects the largest Latin American economy's debt profile to improve in 2004 and be less vulnerable to external shocks. Public debt issued in fixed-rate bonds will reach 23 percent of the total in 2004 from 12.5 percent the year before, the plan foresees. The government should also cut the percentage of the total debt burden linked to the exchange rate to 5-7 percent from 10.8 percent in 2003. The Treasury also hopes to reduce the ratio of domestic debt indexed to the Central Bank's fluctuating overnight lending rate to 50 percent from 61.4 percent in 2003. Brazil will show confidence in its ability to control inflation by issuing longer-term bonds indexed to the official IPCA consumer price index. The plan also recommends lengthening the average maturity of domestic debt to 34 and 38 months from 31.3 months in 2003.

Fox Calls for Compromise on Tax Reform in Mexico

Mexican President Vicente Fox on Wednesday appealed to his congressional opponents to help him reach a compromise on tax reform, Reuters reported. "I call on people not to be politically entrenched. I call on people to share responsibility," Fox said at a convention of

federal and state officials, federal lawmakers, and business leaders. Fox's tax reform proposal, which included a reduction in the country's value-added tax (VAT) from 15 to 10 percent and a controversial extension of the tax to the politically sensitive items of food and medicine, was rejected late last year by Mexico's opposition-dominated Congress. Fox said if approved the measure would have resulted in an additional 100 billion pesos (\$US 9 billion) in government revenue. But lawmakers approved only minor tax changes which added just 15 billion pesos to the federal budget. Fox said his tax reform plan would help the poor more than hurt them

because the extra money raised would go toward housing and education programs. "The Mexican state suffers from a financial structural weakness. We need incomes to cover the basic needs of the country ... and to increase our competitiveness on the global stage," the president stated.

Venezuelan Business Group Criticizes Foreign Exchange Controls

Venezuela's leading private trade and services association said Thursday that the country's currency controls denied local importers hard currency and unfairly favored transnational companies, Reuters reported. According to Consecomercio association head Jorge Botti, the state currency board—Cadiwi—has not given most private importers the hard currency needed for business. "Only 20 percent of businesses that import were able to get access to Cadiwi, and of those, only 20 percent received what they wanted," Botti told reporters, contradicting the government's positive assessment that controls are channeling currency to businesses. President Hugo Chavez's government enacted the foreign exchange controls, which require companies to formally apply for exchange transactions at rate of 1,600 bolivars per dollar, during last year's opposition strike

to strengthen the local currency and fill Venezuela's foreign reserves, which are now at \$22 billion. Botti said the curbs' 1,600 bolivar rate privileged transnational companies, while local companies are forced to buy and sell at the black market rate of more than 3,000 bolivars to the dollar. Cadivi President Edgar Hernandez said Thursday that \$8.9 billion of the total \$11.6 billion in hard currency funds approved by the currency control board through last month, \$8.8 billion had been allocated for imports, although he acknowledged only \$3.6 billion has actually been disbursed. Venezuela imports 60 percent of its goods.

Brazilian Auto Sales Down 4 Percent in January from a Year Earlier

The Brazilian auto industry said Tuesday that vehicles sales in January fell 4.4 percent from the same month of 2003. Reuters reported. According to the Association of Motor Vehicle Manufacturers (Anfavea), Brazilian manufacturers sold 107,400 cars, buses, and trucks in January—a seasonally weak month—down 36 percent from the buying rush of December. "Everybody is sunbathing on the beach in January, and on top of that there were price rises," Anfavea President Ricardo Carvalho told reporters. "December was an exceptional month with promotions and aggressive competition between manufacturers." Among the country's major automakers, **Fiat's** car sales fell 54 percent in January from 340,682 vehicles in December, while **General Motors'** sales fell 43 percent, **Ford Motor Co.'s** 34 percent, and **Volkswagen AG's** by 11 percent. Anfavea expects sales to rebound 7.8 percent in 2004. Industry production was up 2.1 percent from December to 157,300 vehicles in January, and up 9 percent from a year ago.

Chilean Central Bank: Economic Activity up 3.2 Percent in 2003

The Chilean Central Bank said Thursday the country's economic index was 3.2 percent stronger in 2003 than in 2002, echoing government and economists' GDP forecasts, which will be released this month, Reuters reported. Strong exports

and retail sales helped the economic activity index grow 3.2 percent YoY in December 2003, and 3.2 percent YoY in November. The Bank forecasts up to 5.5 percent GDP growth this year on the rising price of copper—some 40 percent of Chilean exports—although some analysts put their 2004 estimate between 4.5 and 5.0 percent on sluggish, non-traditional exports and struggling local manufacturing. Growth in Chile has been speeding up since the country's 1999 recession, with the peso appreciating 21 percent in 2003 and up 1.4 percent this year. The peso has made imports cheaper and driven down consumer prices, prompting the Central Bank to make two consecutive monthly interest rate cuts to halt deflation and peso appreciation. Nevertheless, new investments by Chilean companies and manufacturers have not occurred. Instead, companies and manufacturers have been reactivating old capacities and using up inventories.

Company News

Banco de Mexico Gov. Ortiz Opposes Bancomer Buyout Bid

Mexican central bank head Guillermo Ortiz told local media Thursday that he opposes Spanish **BBVA's** attempt to buy out the 40.6 percent stake in Mexico's **Bancomer** it doesn't already own because the country's largest bank would no longer be publicly traded, Reuters reported. Banco de Mexico Governor Ortiz told reporters the transaction has "more disadvantages than advantages." Following the takeover, Bancomer would not be legally required to disclose information, as required of traded companies, limiting investors' access to information to BBVA releases. "It is not the central bank's role to authorize this operation, but it is its exclusive right to give an opinion," said Ortiz. "But the central bank would have serious reservations about giving a favorable opinion. Very probably the opinion would be unfavorable." The Mexican finance ministry must give its approval for the proposed 3.3 billion euro (\$US 4.1 billion) cash bid—announced on Monday—based on the opinions of the central bank and

Q&A Index

A review of the featured Q&A in the Latin America Advisor for the week ending February 6, 2004.

Monday: Should Some Countries Worry Their Currencies Are Too Strong?

Tuesday: What Does Recent Inflation Data Signal for Brazil?

Wednesday: What is Argentina's Strategy in Debt Restructuring Talks?

Thursday: Is Brazil's Proposed Power-Sector Reform Investor-Friendly?

Friday: What Effect will US Popular Opinion Have on the Free Trade Debate?

Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting Editor Robert Simpson at rsimpson@thedialogue.org.

the National Banking and Securities Commission, which has yet to make its opinion public.

Copper Miners, BHP Billiton Return Resume Talks in Bid to End Strike

Wage talks between management and striking workers at **BHP Billiton's** Cerro Colorado copper mine in Chile were expected to resume Thursday, Reuters reported. The talks are aimed at ending the six-day-old strike, which has sent copper prices higher on world markets. Union President Rodolfo Viveros said the surge on the London Metals Exchange of benchmark three-month copper prices to \$2,574 per ton—a six and a half year high—justifies workers' demand for a 5 percent wage increase. BHP Billiton offered a 3.9 percent increase last weekend. The union is also seeking improved health benefits and a change in the terms of production bonuses. Viveros said workers would continue the strike while talks remain bogged down. "There are no guarantees the strike will conclude, unless there are significant advances," Viveros stated.

Featured Q&A*Continued from page 1*

halls of Congress. It is not principally that popular opinion has changed dramatically. Rather, a series of other political and economic factors are victimizing CAFTA. The trick will be to help a sufficient number of congressional members to both demythologize the situation and find a reason to support it."

A Guest Comment: Donald Planty: "I expect that popular sentiment will have a negative effect on the upcoming debate in Congress over the free trade agreements with Latin America and especially on congressional consideration this year of the US-Central America Free Trade Agreement (CAFTA). Because of popular perceptions and the resultant pressure on members of Congress, particularly in the House of Representatives, I am pessimistic that CAFTA will be approved in a presidential election year. Political pressures will be most intense on 'swing' members from southern apparel-producing states that have lost thousands of jobs to overseas factories. To marshal the support of the majority in the US that support trade 'in principle,' the Bush administration and supporters of CAFTA will need to paint the 'big picture' for voters, reminding them that free trade has historically benefited the US by making a major contribution to economic growth in the post World War II period. Moreover, CAFTA proponents need to stress that freer trade with the Western Hemisphere is in the overall interest of the US because it serves as a development tool in the area. By forcing economies to open and expanding economic activity in the countries of the region, free trade will stimulate economic growth. Economic growth and expanded economic opportunity, in turn, will strengthen democratic institutions and democratic governments."

A Board Comment: Myles Frechette: "I'm not surprised by the results of this poll. During the eight years of the Clinton presidency it was not possible for Clinton to get fast-track authority, main-

ly because of the opposition in the Democratic Party. President Bush made getting the new version of fast track a great priority and has embarked on a number of free trade agreements. However, the story about the benefits of free trade agreements to the US consumer—that is, paying less for imports—has not been sufficiently made. Nor has there been enough of an explanation of the fact that when the world changes—including the US—there are businesses that can no longer compete. Sometimes these businesses cannot compete even within the US. It is useful to include in a separate agreement ideas on the environment and on labor. Let's not fool ourselves: the signing of a free trade agreement isn't going to automatically create conditions in country X in which the environmental conditions are as good as or better than in the United States nor bring the wages paid there up to US levels. There's a lot of misunderstanding here and I think that the Bush administration, before and during the time that it's trying to persuade the Congress to approve the Central America Free Trade Agreement, has got to develop these ideas and lay them out. Right now there's a lot of misinformation and it's not being challenged with the facts about the benefits for the US of free trade agreements. Should President Bush not be re-elected, there will be no CAFTA, FTAA nor any other free trade agreement. I have not heard a single democratic candidate for the presidency support free trade."

Jon Huenemann is a member of the Advisor board, Senior Vice President at Fleishman-Hillard Government Relations, and a former Assistant US Trade Representative with responsibilities in the Americas.

Donald Planty is President of Planty & Associates and was US Ambassador to Guatemala from 1996 to 1999.

Myles Frechette is a member of the Advisor board and was US Ambassador to Colombia from 1994 to 1997.

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Erik Brand,
General Manager, Publishing

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Claudio Loser,
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Jeffrey M. Puryear,
Program Director and Senior Fellow

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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