



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q Retail sales are expected to grow in most of Latin America in 2004 after two difficult years. What is driving the recovery of retail in the region? What drivers are key to continued growth? Which sectors do you expect will show the strongest growth? The weakest?**

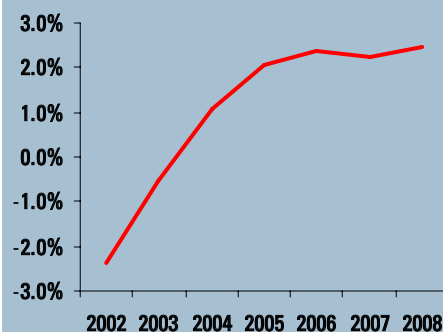
**A Board Comment: Dirk Donath:** "In several key Latin markets, retail sales have already begun to show signs of solid growth over the past few quarters, and some of the key players have shown strong results and solid performance. Across the region, sales levels are expected to grow in 2004 and probably in 2005 as well, following several years of disappointing results in many of the key markets. While consumption has certainly picked up somewhat, many productivity levels nevertheless still fall short of the best years in the late 1990s. The installed retail base in general in many Latin markets still shows excess capacity, as many thousands of square meters in new store floor space were added as a result of aggressive investment projects, often by multinational retailers looking to expand across the region. This excess installed capacity will still likely take several years to work its way through the system. The recently stronger consumption levels can be attributed to several broad factors. In some of the key markets we are experiencing improving consumer confidence, as seen in relative stability, low inflation, stable exchange

rates, and somewhat improving income levels. In some sectors, there is also clearly a 'latent demand effect' following the past 2-3 years of restricted consumption levels. Also, we are seeing some credit available at declining interest rates that has also helped to spur consumption of durables. Going forward, a key issue will be whether we are currently experiencing a short-lived 'catch-up effect' following a period of lower demand or whether the current consumption levels will be sustainable, driven by strong fundamentals, stable conditions, and readily available and attractive credit.

*Continued on page 4*

### CHART OF THE DAY

**LatAm Retail Sales Growth\***  
Historic & Projected, 2002-2008



\*Argentina, Brazil, Chile, Colombia, Mexico.

Source: Economist Intelligence Unit.

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## NEWS BRIEFS

**Kirchner Expected to Leave Hospital by Wednesday**

Argentine President Nestor Kirchner is expected to be discharged from a hospital in his home province of Santa Cruz on Tuesday or Wednesday after he checked into the hospital on Thursday night with stomach pain, low blood pressure, and nausea. Dr. Luis Buonomo said Kirchner showed "frank improvement" from his bout with erosive gastroduodenitis, a fairly common illness in which lesions on the stomach walls can cause internal bleeding. Kirchner will be able to resume his duties immediately upon his discharge, Buonomo said.

Source: La Nacion, Reuters.

**Rain, Mudslides Kill Six in Peru, Strand 1,500 Tourists**

Six people were killed and some 1,500 tourists were stranded as a result of heavy rains and mudslides in Machu Picchu Pueblo, Peru. Eleven people were missing and about 70 homeless after a river flooded its banks and washed away several houses in the town, which is the starting point for tourists to the ancient Inca citadel of Machu Picchu.

Source: Reuters.

**Mexican Judge Jails Two Police Officers for Protecting Drug Lord**

A Mexican judge jailed two high-ranking police officers from Morelos state on charges of protecting the powerful head of the Juarez drug cartel and an aide, the attorney general's office said Friday. Arrest warrants have also been issued for five Morelos state employees. Officials said police supervised the transport of Colombian cocaine from its arrival at an airport in Cuernavaca, the capital of Morelos.

Source: Reuters.

## Political News

**Chavez Apologizes for Downplaying Injuries of Soldiers Burned in Fire**

Venezuelan President Hugo Chavez on Sunday issued a public apology for downplaying the injuries suffered by eight soldiers—one of whom died—in a March 28 barracks fire. In a broadcast from the Fuerte Mara military facility in the state of Zulia, Chavez said he was responsible for saying the soldiers had only "minor injuries" from the fire, which started in a detention cell where the soldiers were being held for disciplinary reasons. "I come here today to Fuerte Mara to correct a mistake and ask for pardon, if with that error I caused more pain to the soldiers that suffered severe burns, having said they were almost all minor," Chavez said, according to Venezuela's official news service. Chavez misstated the soldiers' conditions during his regular weekly broadcast to the nation last Sunday. Just hours after that broadcast, one of the six soldiers who had sustained severed burns from the fire, died from his injuries.

Communication and Information Minister Jesse Chacon offered his resignation on Monday, saying he was responsible for giving the president bad information. However, yesterday Chavez reinstated Chacon and accepted sole responsibility for the error. The incident has ignited an uproar in Venezuela amid speculation the soldiers were deliberately set on fire for supporting a recall referendum against Chavez, a charge the president denied yesterday. Relatives of the soldiers as well as members of Venezuela's political opposition have demanded a full investigation into the fire. Chavez's comments yesterday came on the second anniversary of a short-lived coup against his government, which resulted in Chavez's 48-hour ouster. Vice



Venezuelan Communication and Information Minister Jesse Chacon.

Source: Ministry of Communication & Information.

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President Jose Vicente Rangel said yesterday that "there will never again be an April 11 in Venezuela."

**Salvadoran President Affirms Support for US Mission in Iraq**

US President George W. Bush has received pledges of continued support for the US campaign in Iraq from three allies, including El Salvador, the White House said Friday, according to Reuters. Administration spokesman Scott McClellan said Bush spoke with Salvadoran President Francisco Flores, as well as with the leaders of Italy and Poland. "All four leaders reaffirmed their commitment to the Iraqi people for a free and democratic Iraq and to defeating the minority and extremist elements who are seeking to derail the transition process through a violent power play," McClellan said. In the last week, at least 51 US and allied soldiers have been killed trying to put down an insurgency that has spread to several cities. El Salvador has several hundred troops in Iraq under Spanish command.

**Bolivia Conditions Gas Exports to Chile on Resolution of Sea Access**

Bolivia's foreign minister has conditioned the sale of natural gas to Chile, hit by the energy crisis in neighboring Argentina, on a discussion of landlocked Bolivia's claim to Pacific coastal territory held by Chile, Argentine daily *Clarín* reported Friday. The sale of gas to Chile "has to be married to the matter of sovereignty," said Foreign Minister Juan Ignacio Siles. Bolivia's demand for maritime access, stripped by Chile following the war of 1879, is one of Bolivian President Carlos Mesa's rallying points. The foreign minister indicated that whatever deal for natural gas that might be made with Chile will have to include the condition of Bolivian maritime access. Evo Morales, a peasant leader who helped bring down the government of Bolivian President Gonzalo Sanchez de Losada last fall, has protested that the exportation of gas to Argentina would favor Chile. The Central Bolivian Workers (COB) union supports Morales and has called for a

strike on April 15. The COB demands that Bolivia's oil law not favor gas companies, that the economic model be changed, and that reforms be made to the pension system. Also pressing on Bolivia are the demands of coca farmers, who last week accepted the government's promise that it would not continue with the forced eradication of coca cultivation. "We will solve this crisis in peace or we are going to be in a situation that will spill blood," said Jose Galindo, the minister of the Bolivian presidency.

## Economic News

### Mexico Opens Borders to Further Resumption of US Beef Imports

The Mexican government has issued new rules for the import of US beef, the US Department of Agriculture (USDA) said Friday. The new requirements for selected US variety meats, veal, and tallow make possible the resumption of beef imports from the US, which had been halted after the discovery of mad cow disease at a farm in Washington state. Combined with Mexico's announcement to reopen the border to US boneless beef on March 3, the US has now regained access for products worth \$746 million, or 74 percent of approximately \$1 billion in exports, of beef and tallow to Mexico in 2003, the USDA said. "I applaud this action taken by our colleagues in Mexico," said Agriculture Secretary Ann Veneman in a statement. "The reopening of the Mexican market to more beef products is a very positive signal that the North American market for beef is returning to normal." Mexico is the second-largest market for US beef exports. The USDA said the US, Mexico, and Canada—partners in the North American Free Trade Agreement—are working to harmonize measures and regulations to control mad cow disease in North America. "This action, combined with previous actions by Mexico and commitments by the Canadian Government, demonstrates solidarity within North America to trade in beef and beef products based on internationally accepted scientific standards for human and animal health," Veneman said.

## Special Advisor Report

### *Experts Outline Challenges to Haiti's Political Stability*

By Chris Heaney

WASHINGTON - About a month into the leadership of Interim Prime Minister Gerard Latortue, Haiti's political stability is far from certain as it faces a myriad of problems, from how to treat the armed rebels who forced the departure of President Jean Bertrand Aristide to establishing control over rural areas, a panel of experts said Friday.

Meg Gilroy, director of Caribbean Affairs at the US State Department, stated the US position that Haiti must move towards elections with a broad spectrum of parties and civil society, while screening out elements of political violence.

"We feel there should really be no role in governance in Haiti for people who violated human rights crimes," Gilroy told an audience at the Inter-American Dialogue (the owner of this publications). She also said the Haitian police force must screen people inserted into government during the last few months' tumult, and that Haiti should seek justice, not revenge, as part of a peaceful political process.

The interim government—despite its assertions of independence and competence to organize elections—has already committed the blunder of associating with rebels to the exclusion of Aristide's Lavalas Family party, said Robert Fatton, a professor of politics at the University of Virginia.

Former Prime Minister Yvon Neptune and other members of Aristide's government have protested that the interim government is persecuting members of the Lavalas Family party while ignoring allegations of human rights violations committed by the rebels during the revolt.

Robert Maguire, the director of the International Affairs program at Trinity College in Washington noted that names of Lavalas Family party members are being read on the radio, comparing the broadcasts to radio programs that provoked massacres in Rwanda ten years ago.

The challenge of disarming the rebels, the panelists explained, lay in that the rebels essentially are the only power controlling areas outside of the capital, Port-Au-Prince. For elections and poverty reduction in the Western Hemisphere's poorest nation to occur, the paramilitary groups must be disarmed, Fatton said.

The more the Haitian government and the international community waits to disarm the rebels, the more entrenched they'll become in the structures of power, Fatton said.

Jocelyn McCalla, the executive director of the National Coalition for Haitian Rights, said violent elements are taking control in rural areas and even in Port-au-Prince, where there is a power vacuum. He called the interim government a "compromise, something put together very quickly in a hodge-podge fashion."

Gilroy said Haiti would need about \$500-\$600 million for infrastructure, but said three are questions regarding the capacity of the government and nongovernmental organizations to absorb the money and use it effectively.

Maguire noted that although there is a moderate structure in Port-au-Prince to distribute the funds promised by US Secretary of State Colin Powell last week, it is not clear who will administer funds for infrastructure outside of the capital.

**Featured Q&A***Continued from page 1*

Such sustainable demand conditions would likely in turn eventually produce a new round of investments across the region in new offerings, attractive formats, upgraded facilities, etc."

**A Guest Comment: Stanley Eichelbaum:** "There has to be a realization that overall the demographic of Latin America has exceptional potential. You have economies that are youthful and are dra-

“There has to be a realization that overall the demographic of Latin America has exceptional potential.”

– *Stanley Eichelbaum*

matically underserved. Economic stability is driving current performance surges, as well as consumer confidence and market confidence. That stability has to stay in place for this to continue. In terms of country specific growth, Brazil should be a star market. In another dynamic, there are markets that have seen high turbulence. Argentina would be considered more of a recovery market. The Central American markets should have reasonably good potential. In terms of expansion, there actually should be across-the-board strength. The market underpinnings of Latin America in several countries are favorable. A maturing population should show a development of potential in apparel, home goods, and most other sectors. I would say that it won't be a sector progression; it will be pretty much across the board. Consolidation of companies will be a very marginal factor. The reality is a dramatic demand of the public for products with favorable confidence in the market place; that is a right formula. And on a world-comparative scale, retail is an underserved sector. Retail square footage per capita is dramatically lower than in most regions of

the world and there is a youthful population with great need of goods and great fondness for fashion and other products."

**A Board Comment: Beatrice Rangel:** "Two world economic trends are fueling this revival. On the one hand there is the enhanced demand for commodities, led basically by China. This upsurge in demand for commodities has particularly benefited grain exporters like Argentina and Brazil, but also mineral exporters like Chile and oil exporters like Trinidad, Ecuador and Venezuela. On the other hand, we have a group of countries that have successfully negotiated free trade agreements with the US, such as Chile, and Central America. I suspect that the second variable will fuel a more prolonged growth in retail, given that the first largely depends on the sustainability of China's current rate of growth. China's economy to some observers is showing signs of being overheated, but one never knows with that country, as economic policy management seems to consistently defeat analysts' expectations. As to which sectors will benefit the most, I think consumer durables will, as well as apparel and cosmetics."

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