



# Inter-American Dialogue

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

**Q** The US government's Overseas Private Investment Corp. (OPIC) is reportedly unlikely to extend political risk insurance or project financing for new ventures in Venezuela after ruling that Venezuelan state-owned oil company PDVSA had expropriated the assets of a joint venture involving a US company. How would OPIC's withdrawal of support for ventures in Venezuela affect investment in the country?

**A** Guest Comment: Mark Baker: "As a practical matter, if OPIC decided not to extend political risk insurance or project financing to Venezuela, it would likely have little immediate effect. According to OPIC's 2003 annual report, OPIC did not approve any projects for Venezuela last year. However, historically, OPIC has provided more than \$100 million in annual financing or insurance for projects in Venezuela, and an official withdrawal of support would have a chilling effect on foreign investment in Venezuela. It would send a clear message of a lack of confidence to the Venezuelan government and to officials at multilateral organizations like the IMF and World Bank. That is not to say that the decision would be unjustified nor would it be the most damaging action for foreign direct investment in Venezuela. The Chavez administration itself has done more to undermine investor confidence than any decision taken by OPIC, as it has run roughshod over private investor rights and

imposed extremely tight currency controls that make investment in the country risky and unattractive, particularly as compared to other countries in the region."

**A** Guest Comment: Oscar A. Echevarria: "The question of whether the withdrawal of OPIC's guarantee will affect foreign investment in Venezuela is a very shocking and unfortunate reminder of how low the standing of the country has fallen in the foreign direct investment market. In the years of mismanagement and corruption of

*Continued on page 4*

### CHART OF THE DAY



The Mexican peso fell to its lowest level this year on fears that the US may soon hike interest rates. See related story starting on page 3.

Source: [oanda.com](http://oanda.com)

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## NEWS BRIEFS

**Robert Bosch Corporation Makes Charles Visconti President of Mexico Operations**

German auto parts maker **Robert Bosch Corporation** has named Frenchman Charles Visconti its new president of Robert Bosch S.A. de C.V., Mexico. Visconti has been with the company since 1999 and will be relocating to Mexico.

Source: company release.

**Lucent Closes Sales in Ecuador, Honduras and Puerto Rico**

The Latin America regional office of telecom equipment provider **Lucent Technologies** yesterday announced contracts with **Andinatel** in Ecuador, **Hondutel** in Honduras and **MoviStar P.R.** in Puerto Rico worth "several million dollars".

Source: company release.

**Brazil's Aracruz Celulose Profit Drops 54 Percent**

Brazilian pulp and paper giant **Aracruz Celulose** posted a 54-percent drop in its first quarter net profit from a year earlier. The company said its first-quarter net profit fell to 148.5 million reais from 319.7 million reais a year earlier and 154.4 million reais in the fourth quarter of 2003. The real currency's appreciation and increased production costs could have contributed to the drop in profit, according to one source. Last month, Atlanta-based **Georgia-Pacific Corp.** announced plans to sell all of its interests in three Brazilian companies, which hold a non-voting interest in Aracruz Celulose, to an undisclosed party for \$75 million. Georgia-Pacific reportedly netted a record profit of \$10 million on the deal.

Source: Thomson Financial, Atlanta Business Journal

## Political News

**Rio Requests 4,000 Federal Troops to Halt City's Drug Bloodshed**

Five days into a bloody conflict between Rio de Janeiro police and drug gangs in the slums of Brazil's second largest city that has left at least 10 dead, state officials asked for federal assistance on Tuesday. Rio de Janeiro state Public Safety Director Anthony Garotinho asked the federal government for at least 4,000 troops to be deployed in at least eight separate slum areas, according to reports. Rio de Janeiro's state governor, Rosinha Matheus, earlier in the day had asked President Luis Inacio "Lula" da Silva's government for more "collaboration" in the form of federal police intelligence units for Rio and the

*Advisor*, would be better addressed by dealing with police collusion with drug gangs, which "requires the political authorities to confront their autonomous and unaccountable police force—a huge challenge, as demonstrated by the collapse of the previous reform effort led by Secretary for Security Luis Eduardo Soares, until he had to flee after receiving threats to his life."

**Fifteen in Bolivia's Cabinet Resign; Latest Dispute Over Gas Exports**

Fifteen Bolivian cabinet ministers resigned shortly after news broke that the minister of mining quit, Agence France-Presse reported yesterday evening. A new cabinet will be named later today, AFP said, citing government spokesman Osvaldo Candia. A new controversy over gas exports to

*"Fighting drug trafficking is something that belongs with the federal government, but falls on our shoulder."*

-- Rio de Janeiro's state governor, Rosinha Matheus

release of 21 million reais (\$7.28 million) of funds pledged for similar units, Bloomberg News reported. "Fighting drug trafficking is something that belongs with the federal government, but falls on our shoulders," Matheus said. About 1,200 state paramilitary police are continuing an offensive that began Friday when a heavily armed drug gang from another slum attempted to take control of the drug trade in Rocinha, South America's largest shantytown. While some city officials had said earlier in the day that the situation is "under control," Brazil's minister of justice, Marcio Thomas Bastos, said yesterday that federal military troops would help Rio fight drug gangs if asked. Rio's deputy governor, Luiz Paulo Conde, yesterday proposed that the city construct walls around Rocinha and three other *favelas* to cut off gang members' escape routes. Rachel Nield, a Washington consultant on police reform, called the idea of "walling in violence" both "offensive and ineffective from a human rights and law enforcement stand-point." Violence in Rio, she told the

Argentina sparked the resignation yesterday of Mining Minister Antonio Aranibar, according to reports, and the other cabinet minister resignations apparently followed. Opposition leaders against the Argentina exports argued that Argentina might export the gas to Chile, which populist leaders in Bolivia accuse of blocking the country's access to the Pacific.

**Bush Phones Mexico's Fox on Death Penalty, Regional Issues**

US President George W. Bush called Mexican president Vicente Fox on Tuesday morning to discuss a recent World Court ruling that the US had violated the rights of over 50 Mexicans on death row, a coming UN vote on Cuban human rights, and reforms for the North American Development Bank, the Associated Press reported. The International Court of Justice ruled that the US denied Mexicans on death row access to legal help from the Mexican government, and that the US must review their cases. Many US states

have made no move to comply. Fox, a strong opponent of the death penalty and champion of a strong UN, believes the US will comply with the ruling. Scott McClellan, Bush's press secretary, said the presidents discussed a Honduran resolution up for proposal this week in the UN Human Rights Commission to sharply criticize Cuba's crackdown on dissidents. "They agreed on the importance of passing a Cuba resolution at that meeting and working together to improve the human rights situation," he said. Fox received a recommendation last month from Mexico's lower house that Mexico abstain from the resolution's vote. Cuba cooled relations with Mexico last year when the longtime ally supported a weaker resolution that urged the island nation to accept a visit by a UN human rights expert.

## Economic News

### Region's Currencies Stable, Yet Sensitive to US Economy, Rates

Latin America's currencies have performed with relative stability in recent months, and analysts suggest the outlook for major currencies in the region may hinge more upon the US economy than volatility in fiscal and monetary policies at home. A surge in US retail sales and demand spurred the Chilean peso on to a five-week high on Tuesday, but the Mexican peso fell to its lowest level this year on fears that the US may soon hike interest rates. Chile's currency was up 0.7 percent to 596.30 pesos to the dollar—the ninth advance in ten days—in the wake of news of Chile's \$1.14 billion trade surplus in March and February's 4.2 percent economic expansion, its fastest growth in five months. The Chilean peso's continued rally will depend on the central bank's reaction to a 0.7 percent decline in prices in March, analysts said, according to Bloomberg News. Chile's benchmark interest rate is currently at 1.75 percent. Mexico's peso, however, responded to the 1.8 percent growth in US retail sales yesterday by weakening 0.35 percent to 11.2720 per dollar. The Mexican peso is at its weakest since December, when Mexican President Vicente Fox failed to

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with featured speakers

#### **Luiz Augusto Candiota**

Deputy Governor for Monetary Policy  
Central Bank of Brazil

and

#### **John B. Taylor**

Undersecretary for International Affairs  
US Treasury Department

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New York City

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get lawmakers to agree to a major tax reform. Mexico's economic recovery, relative to the US', has been more tentative. While observers expect the US Federal Reserve to hike interest rates to cool the American economy, the Mexican central bank most recently left interest rates unchanged, despite a swell in inflation, so as to protect the country's fledgling growth. Though the peso has benefited from the government's daily sale of US dollars, if future US economic growth causes inflation, the US could raise interest rates, making Mexico and some other Latin American countries less attractive for investors, said analysts. Like Chile, Colombia's peso was up, 0.1 percent to 2,643.05 to the dollar, but Mexico's slip was echoed in Argentina, where the peso was down 0.3 percent to 2.8190 to the dollar, and Brazil, whose real fell 0.1 percent

to 2.8830 to the dollar. Roger Scher, the director for sovereign ratings at Fitch in New York, told the *Advisor* that while the region's currencies on the whole are relatively stable, a bigger risk to sovereigns over the next year or two is interest rates in the US, and how a potential spike in US rates will affect Latin America's significant financing needs. "A weaker US dollar and rising interest rates would mean more risk aversion [for the region]," Scher said.

## Company News

### **Impsat Emerges from Bankruptcy, Posts \$40 Million EBITDA**

Argentina-based telecom provider **Impsat Fiber Networks Inc.** yesterday formally announced its financial results for 2003,

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

President Rafael Caldera's government and during the debt crisis of the 1980s, neither OPIC nor the Multilateral Investment Guarantee Agency were a factor in the decision-making of foreign direct investors. Now OPIC comes into consideration due to the perceived negative impact of the government resulting from the climate it has fostered, the policies it has established and the inefficiencies in managing the abundant resources generated by oil at over \$30 per barrel, leading to foreign reserves exceeding two years of imports while GDP per capita is 40 percent of its 1980 level. Such is the consensus of all very well-respected domestic and international analysts. The perceived level of security risk and political and economic uncertainty in Venezuela is a very formidable deterrent to foreign direct investment even with the recourse of OPIC's guarantee, let alone without it. The fact that OPIC's withdrawal comes as a consequence of action from PDVSA, a company that, while government-owned, was considered exemplary in its efficiency and management, magnifies the negative consequences for the country's image and its attractiveness as an FDI destination."

**A Guest Comment: Francisco Gonzalez:** "Recent developments with respect to OPIC's withdrawal of its political risk and expropriation insurance coverage to new ventures in Venezuela highlights the long awaited but still timely recognition by the international community of the negative effects of President Chavez' authoritarian rule. Although OPIC is

*Continued from page 3*

the year in which it emerged from Chapter 11 bankruptcy protection. Impsat recorded EBITDA of \$40.2 million for the full year 2003, an increase of \$6.5 million or 19 percent over 2002. The company touted news that its Brazil unit posted its first positive EBITDA ever last year, totaling \$1.7 million. Impsat noted that "commercial restructuring [of its] arrangements with Global Crossing and

funded by the US government, its decision is fueled by legitimate concerns over Mr. Chavez's use of the rule of law to preserve his increasingly illegitimate government and to further push his socialist and populist agenda. Foreign investors are now seeing evidence of what Venezuelan investors and industrialists have faced over the last two years: expropriations as well as tax and other compliance witch hunts directed at making them pay for their support to the opposition movement. There is no doubt that Chavez's continuous love affair with Cuba's Castro and recent attacks on the US and President Bush personally have had an effect in the minds of already weary investors. We can only hope that OPIC's decision will act as a catalyst for a concerted, regional effort led by the US and others at the OAS and the UN to put a stop to a government that appears to be on a high-speed chase for the Cuban 'dream' of a single, left-leaning block against freedom and democracy throughout the region."

**Mark Baker** is Director, International Trade Affairs, at Diageo PLC.

**Oscar A. Echevarria** is President of Global Expand in Washington, DC.

**Francisco Gonzalez** is Past-Chairman of the Venezuelan American Chamber of Commerce of the US and Director of the International Practice Group of the law firm of Adorno & Yoss in Miami.

*Editor's Note: The Venezuelan embassy in Washington did not respond to requests for comment by press time.*

the termination of [its] operations in Mexico" hurt revenues, which totaled \$220.3 million for the full year 2003. Operating expenses totaled \$214.7 million, a decrease of \$48.2 million or 18 percent compared to 2002. Impsat currently has local operations in Argentina, Colombia, Venezuela, Ecuador, Brazil, the United States, Chile and Peru.

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